

Keep track of the best new home loans

Yorkshire Building Society has a new renewable one-year deal



James Charles

Last updated July 10 2010 12:01AM

Innovative finance deals aim to give borrowers peace of mind

The flow of new mortgages has barely increased recently and the Bank of England warned last week that the availability of new deals could in fact fall in the coming months. However, despite the limited funds available, banks and building societies have begun to introduce innovative new deals designed to tackle some of the uncertainty and restraints in the market.

Loan rates have been falling as the economic outlook suggests that the Bank of England will hold the base rate at 0.5 per cent for longer than economists first thought. The most popular home loans remain lifetime trackers. First Direct offers a best-buy deal at 1.79 points above base, a pay rate of 2.29 per cent. It has recently lowered the fees on all its loans to £99. It requires a 35 per cent deposit.

Some borrowers are still concerned about the impact of rising interest rates on mortgage repayments pegged to the base rate. *Times Money* looks at the best alternatives.

Trackers with peace of mind Coventry Building Society introduced a three-year capped tracker last week pegged at 2.49 points above the base, a current pay rate of 2.99 per cent. The interest rate that borrowers pay will never rise beyond 4.99 per cent. It has a £999 fee and is available up to 60 per cent of a property's value.

David Hollingworth, of London & Country Mortgages, the broker, says:

“Borrowers have to decide if compromising on the current rate is worth it for the peace of mind that the cap gives against rising rates.”

Meanwhile, a number of lenders have “stepped” deals. The Mortgage Works has introduced a Step Down Tracker with a margin above the Bank of England base rate that falls over time. The two-year deal, available up to a loan-to-value (LTV) ratio of 70 per cent, starts at 1.84 points above base, a current pay rate of 2.34 per cent.

Next year the margin falls to 0.84 points above base, designed to alleviate some of the pain if the base rate starts to rise. However, if the Bank of England hasn't increased rates by then, borrowers would get a rate of only 1.34 per cent above base. The deal, which is available up to 80 per cent LTV, has a hefty 2 per cent, plus £149 arrangement fee .

Alternatively, borrowers who want to benefit from a cheaper rate initially could opt for the two-year Stepped Tracker, which increases from 1.49 points above base to 2.49 per cent above base after a year. However, brokers warn that borrowers could be hit by a double whammy of base rate rises and the increase in margin on the deal.

Split the risk On Monday the Co-operative is halving the fees paid by borrowers taking out a “mix and match” deal that allows them to split their loan between a fixed rate and a variable-rate tracker. It is offering a three-year fix at 3.79 per cent, with a £999 fee, available up to 75 per cent LTV. This rate could be combined with a competitive three-year tracker pegged at 1.99 points above base rate, giving a pay rate of 2.49 per cent.

The strategy, which is offered by most lenders even if it isn't clearly advertised, allows homeowners to enjoy ultra-low tracker rates while hedging their bets against a surprise rise in rates.

Borrowers with either the Co-op or Britannia will be able to combine any proportion of any two deals and pay only one fee, rather than two as previously. It follows the introduction this year of the Split Loan deal from HSBC, which allows buyers to fix between 25 and 75 per cent of their loan.

Rollover Older homeowners with only a few years left on their mortgage are the target of a new type of “rollover” fixed-rate mortgage that has been introduced by Yorkshire Building Society.

The new deal, effectively a renewable one-year fix, allows borrowers to select a new rate that is fixed for the following 12 months or opt to switch to the mutual’s standard variable rate (SVR), currently 4.99 per cent. The rate is fixed for the first year at 2.69 per cent. The loan is available only up to 35 per cent of a property’s value but can be repaid until the age of 75, ten years later than some deals.

Melanie Bien, of Private Finance, the broker, says: “This is a competitively priced and very flexible option for those who don’t want equity release but do want to carry on with a mortgage into retirement. However, lenders are more flexible now on mortgages in retirement than in the past because of our ageing population, so it’s worth asking a broker what else is out there.” Much longer-term fixes Brokers have been warning that when interest rates do eventually start to rise borrowers could be kicking themselves for not locking into a cheap fix when they had the chance.

Five-year fixes are growing in popularity because borrowers fear that rates will rise next year . Yorkshire is offering the best deal at 4.25 per cent, available up to 75 per cent LTV, with a £495 fee. However, there is a growing list of deals for borrowers wanting to fix for longer. Platform, the specialist division of Britannia, introduced a deal last week allowing borrowers to fix their interest rate until 2017 at 4.79 per cent, available up to 70 per cent LTV with a £1,495 fee.

Meanwhile, the Co-operative has a competitive ten-year fix with a rate of 5.29 per cent, up to 75 per cent LTV, with a fee of £999.

For ultimate peace of mind, Kent Reliance Building Society has a 25-year fixed-rate mortgage at 5.98 per cent, also available up to 75 per cent LTV. However, it has an early repayment charge of 3 per cent for the term of the mortgage. It is portable, so the deal can be transferred to a new home, but there could be a catch.

Aaron Strutt, of Trinity Financial Group, another broker, warns: “There is no guarantee that the lender will approve that new home if you want to move, limiting your flexibility. It could also be difficult to switch your loan if there have been any changes to your situation, such as a reduction in the hours that you are working.”

Protection comes at a price

Homeowners on an ultra-low base-rate tracker or standard variable rate can protect themselves against a painful rise in interest rates in the coming years with a new policy from John Charcol, the broker.

The Interest Rate Protector, which is available only on home loans worth more than £500,000, pays out if the Bank of England base rate rises above either 3, 4 or 5 per cent over the next three or five years. The policy will pay out the increased cost of repayments if the base rate rises above that level. It is designed to provide peace of mind to borrowers who do not want to ditch their ultra-low variable rates for a pricier but more secure fixed-rate deal.

However, the cost of adding the policy to a £500,000 mortgage for five years, protecting against the risk of the base rate rising above 3 per cent, is £16,500, which has to be paid upfront.

Using the protector, borrowers on a deal pegged at 0.5 points above base save more than £23,000 than if they were to switch to the most competitive five-year fix — assuming that the base rate climbs to 3.5 per cent in 2014.

However, those with a deal pegged at two points above base would be better off switching to a fix.