

Mortgage rates fall further as criteria eases

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Major high street lenders, including Santander and Northern Rock, cut interest rates

Britain's biggest banks and building societies are shaving thousands of pounds off the cost of new mortgages as competition in the home loans market intensifies.

Northern Rock is cutting the cost of a two-year fixed-rate deal to 3.99 per cent from 4.39 per cent, available up to 70 per cent of a property's value with no fee. It has also cut a number of other fixed-rate and tracker deals. It follows a move by Santander to cut the cost of its five-year fixed-rate deals by up to a quarter point today, the fifth week in a row that the bank, which was previously known as Abbey on the high street, has cut mortgage rates. It is offering borrowers a five-year fix at 4.99 per cent with a fee of £995.

Lloyds TSB, owned by the part-nationalised Lloyds Banking Group, has also introduced a new tracker deal pegged at 1.49 points above base, a pay rate of 1.99 per cent, available up to a 60 per cent of a property's value. However, it has been criticised by brokers after it emerged that the eye-catching deal has a fee of 3 per cent, costing up to £30,000 for borrowers taking the maximum loan amount of £1 million.

The Co-Operative Bank, Yorkshire Building Society and a number of smaller building societies have also cut interest rates in recent days. Banks and building societies fund new mortgage lending with a combination of retail deposits and wholesale borrowing from moneymarkets. These market "swap" rates have been falling in recent days, enabling lenders to cut the rates charged to customers.

Lenders are also competing to attract hundreds of thousands of borrowers who are sitting on a low standard variable rates, the revert rates that mortgages holders move on to at the end of a deal.

Melanie Bien, director of Savills Private Finance, the broker, said: "Several lenders have cut fixed rates this week and others may well follow suit in coming days. There are several reasons for this: some lenders have not been receiving the level of applications they need to meet their lending targets so are cutting their rates to make them more attractive and increase business levels.

"Given that Swap rates are relatively stable and have even fallen, offering cheaper fixes is an easy decision. Many lenders also tend to start the year aggressively and cut back on lending later so rates may be less competitive later in the year as a way of controlling business levels. Those looking for a fixed rate may therefore find an attractive deal if they fix now."

The Nottingham building society has also boosted the hopes of first-time buyers with the launch of a new three-year fixed-rate deal available up to 95 per cent of a property's value. It has an interest rate of 6.39 per cent and a fee of £295.

However, it has a higher lending charge (HLC) of 9.19 per cent on the part of the loan above 80 per cent of the property's value, and is only available to borrowers in Nottinghamshire, Lincolnshire, Derbyshire and South Yorkshire.

Aaron Strutt, of Trinity Financial Group, another broker, said: "It is good that lenders are beginning to reintroduce mortgages available up to 95 per cent loan-to-value and while it is disappointing that there is a charge on the highest loan levels, it is better than no deals at all. It also shows that an insurer is willing to take the risk of covering a potential shortfall if the property repossessed and sold for less than the outstanding mortgage.

“In previous years before the credit crunch, lenders commonly offered deals up to 95 per cent of a property’s value with a HLC as standard. This could be a welcome sign that lenders are willing to be more accommodating to borrowers with small deposits.”

Clydesdale and Yorkshire banks are the only other mainstream lenders to offer deals up to 95 per cent of a property’s value and do not impose a HLC. Lloyds TSB has a 95 per cent range known as “Lend a Hand”, requiring relatives of first-time buyers to put down savings against the loan as security.