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Nationwide cuts mortgage rates

Britain's biggest mutual cuts interest rates by up to 0.5 percentage points for borrowers with hefty deposits

James Charles

Homeowners will benefit from the first drop in mortgage rates in months after Nationwide announced that it is cutting the cost of its most popular deals tomorrow.

Britain's biggest building society is reducing its fixed-rate and tracker deals by up to 0.5 percentage points to attract low risk borrowers with larger deposits.

A four-year fix is falling from 5.58 per cent to 5.08 per cent. It has a £995 fee for borrowers with at least a 40 per cent deposit. A homeowner with £150,000 interest-only mortgage would save £62 a month in repayments.

A two-year tracker has also fallen from 3.83 points above the base rate to 2.58 points above base, a current pay rate of 3.08 per cent.

In recent months lenders have been pushing up interest rates, partly in response to a sharp rise in wholesale borrowing costs. However, the rate increases have led to accusations that banks and building societies are widening profit margins on mortgages.

David Hollingworth, of London & Country Mortgages, the broker, said: "It is great news for borrowers that Nationwide has become the first lender to cut interest rates for the first time in months. When a major lender such as Nationwide reduces interest rates it raises the spectre of other lenders following suit."

Nationwide also announced that it is introducing an upfront booking fee of £99 on all its deals for the first time. The lender insisted that the overall charges would not rise as borrowers would see the booking fee knocked off the final arrangement fee paid when the mortgage application was completed.

Louise Cuming, of Moneysupermarket.com, said: "Nationwide obviously wants some commitment that borrowers will see the application through to completion - if borrowers have to pay upfront, they are less likely to drop out part-way through the process. Lenders currently fear that with no up front fee borrowers may be tempted to make multiple applications to 'hedge their bets'."

Andy McQueen, mortgage director at Nationwide, said: "We have a superb range of products for existing customers coming to the end of a Nationwide deal including two and three year fixed rates which are currently among the best in the market compared to remortgage deals offered by other lenders.

"For these borrowers, we also offer a choice of capped variable rate mortgages from as little as 2.99 per cent. These mortgages are ideal for borrowers who are uncertain about how interest rates will move in the future as they provide assurance that the mortgage rate will not rise above a certain level."

HSBC, Britain's biggest bank, has also loosened the criteria on its two-year discounted variable rate deal, one of the cheapest mortgage deals on the market. It has an interest rate of 2.49 per cent, pegged at 1.45 points below the standard variable rate (SVR).

It is now available to borrowers with a 25 per cent deposit - having previously been restricted to borrowers with a larger 40 per cent deposit.

Aaron Strutt, of Trinity Financial Group, the broker, said: "The risk with loans pegged to an SVR rather than the base rate is that the bank has control of its SVR and could raise it at any time. Borrowers will have to decide whether they trust HSBC not to hike the SVR too quickly in the coming years."

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