Banks are raising rather than cutting their fixed-rate deals

Homeowners could be forgiven for thinking that this week's shock GDP figures might mean better rates on their mortgage. After all, last week economists said that the Bank of England might rase base rates as early as May, but yesterday most agreed that it was unlikely that rates would rise before October after it emerged that the economy shrank by 0.5 per cent in the last three months of 2010.
However, brokers say that rates for fixed-rate mortgages have already risen sharply in recent weeks and that they are unlikely to drop for some time. More than 30 lenders have increased their fixed rates in the past two weeks, adding up to £3,600 over the term of a typical five-year deal on a £150,000 loan. Aaron Strutt, a Trinity Financial Group broker, said that he was expecting more increases over the next few weeks, despite the GDP figures. What does this mean for homebuyers? We answer your questions.

Why have fixed rates risen?

Lenders tend to raise fixed rates when the rate at which they lend to each other, known as a swap rate, rises. Two-year swaps are at 1.64 per cent, showing that the market expects interest rates to be 1.64 per cent in two years' time. Likewise, five-year swaps are at 2.81 per cent, showing that the market believes interest rates will be at 2.81 per cent in five years' time. Swaps have fallen this week, and Melanie Bien, director of Private Finance, the mortgage broker, says it will be hard for lenders to justify further rises. However, they aren't likely to bring them down much at this stage either, she says. Strutt adds: "Once lenders have increased rates it often takes them a while to bring them back down again, but if weak growth continues, we could see longer-term fixes edging down again."

What fixed rates are available now?

HSBC raised all of its two and three-year fixed rates by up to 0.5 per cent this week and its five-year fixed deal rose from 3.99 per cent to 4.20 per cent. It has also added 1 per cent to its 90 per cent loan-to-value two-year fixed mortgage. Halifax, First Direct, and the Skipton and Yorkshire building societies have all ditched their best rates in the past couple of weeks. The Chelsea Building Society also increased its fixed rate this week.

Should I stick to a tracker then?

Bien says that if you don't need the absolute security of a fixed rate, a tracker may be worth considering. HSBC has a lifetime tracker at 1.79 per cent over base rate, so you can move to a fix from any lender at any time. Alternatively, a number of lenders will let you opt for a tracker with an option to switch to one of their fixed-rate mortgages at any time without penalty. Woolwich has a lifetime tracker at 2.18 per cent over base rate, giving a pay rate of 2.68 per cent.There is a £999 fee and it is available with a 30 per cent deposit.

Will it be harder to get a mortgage?

Probably. New lending by the major banks fell to an 11-and-a-half year low in December, according to the British Bankers' Association. Howard Archer, chief UK and European economist at IHS Global Insight, says: "The BBA data points to the housng market ending 2010 very much on the back foot, where we expect it will remain for much of 2011. Housing market activity remains stuck in the doldrums, which seems likely to maintain downward pressure on prices."

New rules transferring the regulation of second-charge loans to the Financial Services Authority means that options for borrowers may narrow further.