## Lenders offer flexible remortgage deals

By Tanya Powley

Published: March 18 2011 18:26 | Last updated: March 18 2011 18:26

Borrowers coming to the end of a fixed- or tracker-rate deal and looking to remortgage their properties in the coming months now have more options available to them, after a number of high-street lenders reduced their fixed rates and launched innovative home loans.

This week, several mortgage lenders – including Nationwide Building Society, Northern Rock and ING Direct – cut the cost of their fixed-rate loans as the rates at which banks lend to each other, known as "swap rates", fell back. Nationwide Building Society has reduced its range of five-year fixes by up to 0.4 percentage points. It now has the cheapest five-year fix on the market at 4.39 per cent, available on loans of up to 70 per cent of a property's value, with a £900 fee. First Direct has the next best five-year fixed rate, at 4.59 per cent.

Fixed rates had been rising sharply in recent months, with lenders rapidly pulling their best rates and replacing them with more expensive deals. As of last week, rates for five-year fixes were nearly 1 percentage point higher than the best rates available at the end of 2010.

However, some lenders have begun reducing their fixed deals as expectations of an early interest rate rise <u>receded this week</u>. Financial markets are now betting that the first quarter-point base-rate rise will come in August, rather than in June, as had been forecast last week.

"Nationwide increased their <u>fixed-rates twice</u> in a very short period of time recently and now they are making some good reductions and offering market leading rates," said Aaron Strutt of Trinity Financial Group.

According to Ray Boulger of broker John Charcol, fixed rates represented 55 per cent of all its mortgage business in February. But Boulger believes that the take-up of fixed-rate deals is likely to decline in the coming months.

"We expect this percentage to peak at around the current level in the mid 50s because, after the recent sharp rise in the cost of five-year fixed rates, their attraction has diminished," he explained.

For those borrowers reluctant to pay more for the security of a fixed-rate, mortgage brokers said there are now a number of different options available.

"When faced with the sizeable margin in pricing between fixes and variable rates, many clients are opting for the latter and taking a gamble," said Melanie Bien of Private Finance.

Last week, Accord, part of Yorkshire Building Society, launched a hybrid five-year tracker/fix deal through selected brokers. It starts as a two-year tracker at 2.29 per cent – Bank of England base rate plus 1.79 percentage points – followed by a three-year fix at 4.74 per cent.

"With base rate sat at 0.5 per cent and likely to stay there a little while longer, the tracker is very competitive – but unlike other 'drop -lock' mortgages around, the fixed rate that follows is known at the outset," said Mark Harris of <u>Savills</u>.

Other so-called "drop-lock" mortgages – also known as <u>"switch-and-fix" deals</u> – are offered through Nationwide, Royal Bank of Scotland and Barclays. Northern Rock is also looking at offering this type of product later this year.

These products allow borrowers to take out a tracker rate but then move on to a fixed-rate deal – with the same lender – without any early-repayment charges. But the potential downside is that the lender's fixed-rates are likely to have risen by the time the borrower decides to switch, pointed out David Hollingworth of broker London & Country.

Borrowers can also opt for a capped-rate mortgage, which cannot climb above a pre-set rate, known as a cap. According to Nigel Bedford of Largemortgageloans.com, three lenders are currently offering capped rates: Coventry Building Society, Britannia and the Islamic Bank of Britain.

Other options include a split-loan mortgage, where borrowers fix a proportion of their loan, with the remaining percentage on a variable rate. Most high-street lenders will now offer this type of arrangement.		