Mortgages: Money market moves make home loans more expensive

- 

Francesca Steele
Last updated February 12 2011 12:01AM

Fixed-rate deals are rising sharply

Click here to view best rates available now (PDF)

Brokers and borrowers expressed alarm this week as fixed rates rose to their highest level in six months and best-buy deals were withdrawn.

A typical five-year fixed-rate mortgage is now 5.45 per cent, according to Moneyfacts.co.uk, the price comparison website, and HSBC and the Royal Bank of Scotland put up the cost of its five-year fixes by up to 0.3 percentage points.

What's more, brokers say that the best-buy deals advertised in shop windows are now typically withdrawn after a week or less.

Although the Bank of England decided again this week to keep base rates at 0.5 per cent, the expectation that it will raise them in the next few months has already caused swap rates — the main driver for fixed-rate increases — to soar. Is now the time to fix before rates climb even higher? Or is a tracker still the best option until the fate of the base rate becomes clearer?

Can I still find a good fixed rate?

Aaron Strutt, a broker at the Trinity Financial, says that fixed-rate increases are likely to continue, so if you want some mortgage security now is as cheap as you're going to get. "Five-year fixes are quite expensive now but there are still some really good four-year fixes." Santander has a four-year fix at 3.99 per cent for those with a 30 per cent deposit and the £1,495 fee.

What have lenders done already?

Many, including NatWest and HSBC, have raised their best-buy deals by almost half a point since Christmas. ING Direct completely withdrew its five-year fix at 4.49 per cent this week. Britannia, RBS and Coventry have also all upped or withdrawn rates this week. Strutt says: "If you find a good deal online, the chances are it won't be there two days later."

Why have swap rates risen so much?

Two-year swaps have risen by 47 per cent since November. This is based on the expectation that base rates will increase soon because of soaring inflation, which is running at 3.7 per cent.

Is this expected to change?

Some economists still expect base rates not to move until the final months of this year and say that mortgage rates will fall as lenders are forced to justify increases. However, lenders tend to improve rates much less quickly than they raise them.

Any good news?

The number of prime residential mortgages has doubled in the past two years, rising from 1,097 available products in February 2009 to 2,447 today. Deals for people with smaller deposits have also grown, with the number available to people with a 20 per cent deposit more than tripling in the past two years. However, brokers warn that many such loans are approved only for a small number of applicants.

So should I choose a tracker?

Melanie Bien, of Private Finance, the broker, says that those who can cope with a few rate rises should consider a tracker that can be switched to a fix at any time. HSBC offers a lifetime tracker with no early redemption charges. But Bien adds: "Remember that fixes will be even more expensive once interest rates start rising."

Can I get a buy-to-let mortgage?

Buy-to-let loans are the most improved sector of the market. This week Kensington Mortgages raised its maximum loan-to-value (LTV) ratio to 85 per cent, the highest available for landlords, and reduced the proportion by which rent must exceed mortgage costs. Fixed rates for this deal start at 5.99 per cent. Elsewhere, the best LTV is 80 per cent, from The Mortgage Works, part of Nationwide. Santander and Yorkshire Building Society are both expected to offer loans to investors this year.