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Cut-price home loans – which one's for you?

- **Leah Milner**
  July 2 2011 12:01AM

Rates are at their lowest in a generation. Leah Milner outlines the best options for borrowers in all circumstances

Mortgage rates have fallen to their lowest level for 23 years, according to research published this week. At the beginning of the year most economists were forecasting that interest rates would rise before the summer, but now the markets are expecting the base rate to stay on hold at 0.5 per cent until July or August next year, which has prompted many lenders to cut the price of new home loans.

Michelle Slade, of the financial website Moneyfacts.co.uk, says that although the drop in lenders' funding costs has pushed average mortgage rates to their lowest level since 1988, banks are still not passing on the full extent of their cost savings to borrowers. She says: "The spread between the cost of funding and average mortgage rates now stands at its highest level since December 2010. Lenders are always slower at bringing rates down than they are at raising them, and as soon as the market expects a base rate rise, mortgage rates will start to increase again. If borrowers delay too long to secure a new mortgage deal they could miss out on some of the lowest rates ever seen."

But David Hollingworth, of the mortgage brokers London & Country, says that many borrowers are reluctant to give up their cheap rates to get the security of a fixed rate. He says: "Fixed rates will not be as cheap when base rate starts to rise, but you have to weigh this up against how much you might save on a variable rate until then."
To help you weigh up whether it is worth changing your mortgage deal — or taking out a loan for the first time — *Times* Money has researched the best-buy deals for every circumstance.

Best deals for first-time buyers

Raising a deposit is the main barrier preventing people from getting on to the property ladder. But since the beginning of this year the number of deals for borrowers with a deposit of 10 per cent or less has increased by 27 per cent.
If you have only a 5 per cent deposit, most deals require you to have a guarantor — a parent or relative who promises to cover your mortgage payments if you fail to do so — but not all. The cheapest rate currently available for borrowers with no guarantor is a two-year fixed rate from Skipton Building Society at 5.99 per cent with a £195 fee. It is worth considering the risk that house prices may fall over this period, which could leave you with difficulties in remortgaging at a time when interest rates are likely to be rising. If you do not qualify for a new deal at the end of two years you will revert to Skipton's standard variable rate, which is Bank of England base rate plus 4.45 per cent, meaning a current rate of 4.95 per cent. But this could be significantly higher if the base rate has increased by then. If you can raise a 10 per cent deposit HSBC has a two-year fixed rate at 4.99 per cent with a £599 fee. It reverts to base rate plus 3.44 per cent, currently 3.94 per cent, at the end of two years. Existing customers with HSBC's paid-for current accounts can get cheaper deals.

There are no trackers available for borrowers with a 5 per cent deposit, but the best one for borrowers with a 10 per cent deposit is an HSBC term tracker starting at 4.69 per cent with a £599 fee.

Options for borrowers in negative equity

Borrowers who bought a property at the peak of the market may now find themselves in negative equity, meaning that the value of their mortgage is greater than the value of their home. Clare Francis, of Moneysupermarket.com, says: "Negative equity only becomes a problem if you need to move house or remortgage. Otherwise, as long as you can afford your mortgage, you can sit tight and hope that by the time you do the value of your property will have risen again."

Borrowers in negative equity will not be able to remortgage with a new lender, but a few lenders will allow existing borrowers to "port" their mortgage if they move home. Nationwide Building Society will allow borrowers who are in negative equity to move house, but if the new property is more valuable the borrower must put down an extra 5 per cent deposit and pay a higher rate on the additional borrowing. The new loan-to-value (LTV) cannot exceed 125 per cent. Lloyds Banking Group, which owns the Lloyds TSB, Halifax and Bank of Scotland brands, will also allow borrowers in negative equity to move home, but if the new property is more expensive they must fund the difference in property values from their own pocket and their LTV cannot exceed 120 per cent.

Best deals for borrowers with deposits or equity of at least 20 per cent

Many borrowers will have seen their property fall in value and will not have enough equity to qualify for the cheapest rates, but if you are remortgaging with at least 20 per cent equity or buying with a deposit of the same value there are still plenty of options. HSBC has an 80 per cent LTV two-year fixed rate at 3.69 per cent with a £599 fee. If you would prefer longer-term security, Leeds Building Society has a five-year fixed rate at

4.39 per cent, but it comes with a large fee, of £1,999. Those who want to continue to take advantage of the low base rate, however long it may last, might prefer a tracker. The cheapest deal at 80 per cent LTV is a two-year discount tracker from Market Harborough Building Society with a current rate of 2.75 per cent and a £645 fee. It is pegged to the building society's own standard variable rate, which will not necessarily move in line with base rate, so the cost of future monthly repayments is uncertain.

Best deals for borrowers with lots of equity

Lenders have been aggressively cutting two-year fixed rates over recent weeks, particularly for buyers with a decent-sized deposit and borrowers remortgaging with a reasonable amount of equity.

Aaron Strutt of Trinity Financial Group, another mortgage broker, says: "Best-buy mortgages are now more accessible and if you have a 30 per cent deposit you can access market-leading rates. Many of the lowest remortgage rates are available with a free property valuation and legal service; this make switching lenders particularly cost-effective."

Woolwich, which is part of Barclays, has a two-year fixed rate at 2.78 per cent up to 70 per cent LTV with a £999 fee. Nationwide Building Society has just cut the rate on its five-year fixed rate to a market-leading 3.89 per cent, available up to 70 per cent LTV, with a £999 fee (there is a £500 fee discount for first-time buyers). Santander has been offering cheap mortgage deals for seven days only through mortgage brokers. The latest offer, through Santander's Abbey for Intermediaries brand, is a 70 per cent LTV two-year tracker starting at 1.99 per cent with a £995 fee, but it will be available only until next Thursday. It offers home buyers £250 cash back, or if you are remortgaging you will get a free valuation and no legal fees.

Best deals for those who cannot decide whether to fix or track

A number of lenders such as Nationwide, Woolwich, Yorkshire Building Society and Northern Rock have options that allow you to start with a tracker and then switch to one of their fixed-rate deals at a later date without penalty, although you might still need to pay a fee on the new product.

HSBC offers some tracker deals with no early repayment charge, which means that you could switch to a fixed rate with another lender at any point. Santander has a two-year tracker deal starting at 2.19 per cent up to 60 per cent LTV with a £1,495 fee, which includes free valuation and legals and has the option to switch to a fixed rate with the lender at any time without penalty.

Best deals for buy-to-let

Competition has also been improving in mortgage deals for landlords. Northern Rock has a two-year fixed rate at 3.25 per cent up to 60 per cent LTV but, like many buy-to-let deals, it comes with a high fee, of 3.5 per cent. Principality Building Society has a two-year tracker at 60 per cent LTV with a 2.5 per cent fee, which starts at a rate of 2.99 per cent.

Case study

‘Our new rate means that we are saving money’

Peter and Frances Angeletta, both 53, have just remortgaged their three-bedroom house in Aylesbury, Bucks. Mr Angeletta, a plumber, and Mrs Angeletta, a classroom assistant, also share their home with their 32-year-old son Stephen during the week as he works as a carpenter in the area, but returns to his partner and children in Littlehampton, near Brighton, at weekends. The Angelettas had been on a variable-rate mortgage with Northern Rock after their previous fixed-rate deal came to an end, but they decided to remortgage to cut their monthly payments. Mr Angeletta says: “We were on a variable rate of 4.79 per cent, but the talk had been that the Bank of England was likely to increase interest rates so we didn’t want to be stuck on that as rates were going up.” The couple applied to Nationwide Building Society for a new tracker rate and, between their original appointment and subsequent meetings, the rate they applied for came down as lenders have been cutting their prices recently.

The couple opted for a five-year tracker,which starts at 2.75 per cent. By opting for another variable rate the couple still risk seeing their monthly costs increase if interest rates rise, but they are starting from a lower rate than they were on at Northern Rock. Mr Angeletta says: “I think that rates are likely to rise gradually and with our new rate our monthly payments have come down £80, so at the moment we are saving money.”