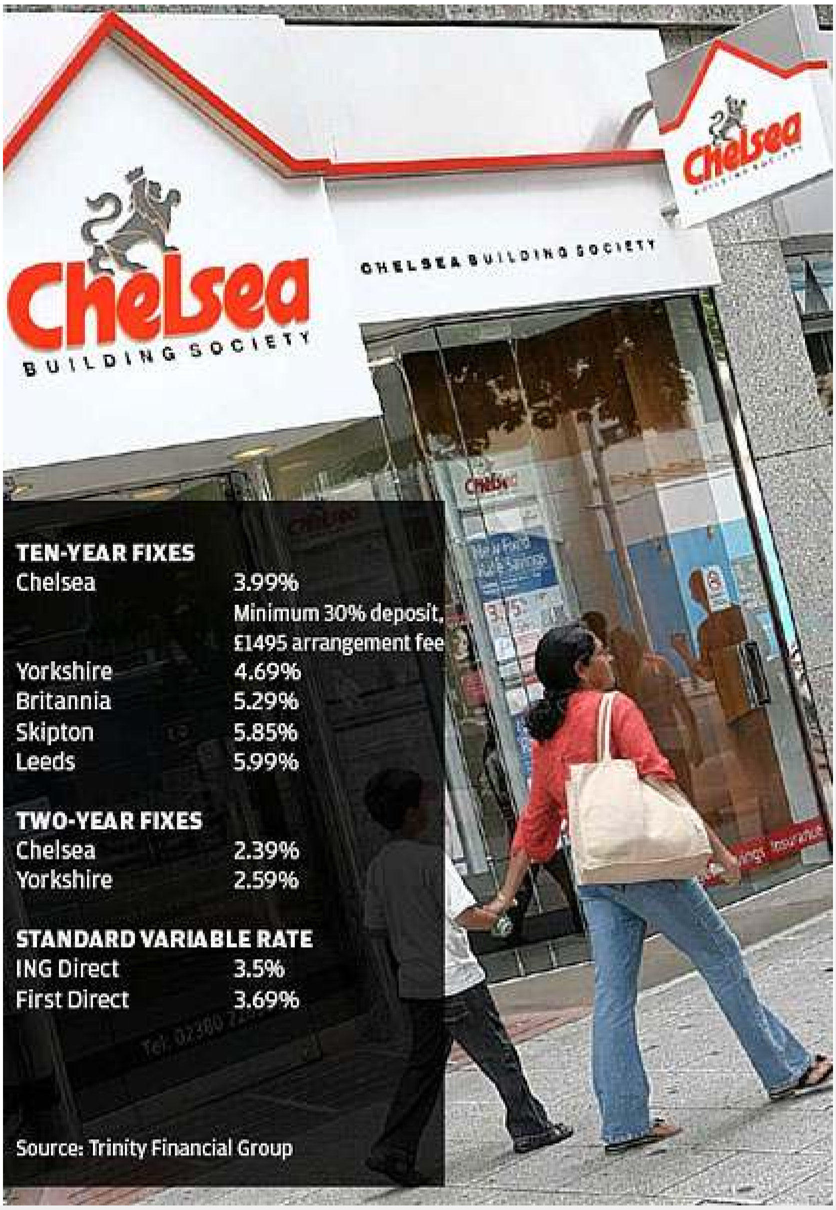

Here to stay: Chelsea's move reflects a market belief that rates will stay low

Chelsea sets mortgage pace with low 10-year fixed rate

26 Aug 2011

Chelsea Building Society today launched Britain's cheapest-ever 10-year home loan, amid growing conviction in the money markets that a rate rise is a long way off.

The building society this morning introduced a new mortgage charging 3.99% interest, fixed for the next decade, which leapt straight to the top of the best-buy table.

The 10-year deal is available only to home-buyers with a 30% deposit, and comes with an arrangement fee of £1,495. The early repayment fee is relatively high: although it reduces the longer homeowners are into a deal, those paying back a mortgage within the first three years are charged 7% of the mortgage balance. That would add up to £14,000 on a £200,000 loan.

"This deal won't be for everyone. Although it is portable, it's best for those who are sure they want to stay in their home for 10 years, and some may be wary about locking in for a decade," said Ray Boulger, senior technical manager at mortgage broker John Charcol, "But it will be popular. It's easily the cheapest 10-year fix on the market, and despite the relatively high fee, for anyone happy to lock in, it offers very good value."

Chelsea said it had launched the mortgage in response to rising demand for longer-term fixes. It has a lending target, but could not reveal it because it was "commercially sensitive". Chelsea's mortgage manager Chris Smith said he had predicted demand and organised sufficient funds to ensure the product was on sale for at least four weeks.

"About 85% of our mortgages are funded through savings," he said. "When we access the wholesale market, we don't take a risk on rates moving, but organise a rate that is also locked for 10 years so we know the profit margin.

"The Chelsea Building Society brand has been off the radar for a long time. We're trying get out the message that it's back, and offering very competitive rates."

Lenders have been slashing mortgage rates in recent weeks in an attempt to fill up their lending books to fulfil end-of-year loan targets. The best five-year fix has fallen to 3.79%, from Yorkshire Building Society, which merged with Chelsea last April, while the market-leading two-year deal, also from Chelsea, has dropped from 2.7% this time last year to a 2.39% deal now.

Banks are chasing a constrained market, with fewer re-mortgagers and first-time buyers struggling to build up deposits. Meanwhile, bank swap rates - which influence fixed-rate mortgage pricing - have fallen close to a record low of 1.8%.

But fears remain that another credit crunch could hit the housing market. "The biggest worry is how the problems in the eurozone will impact the banking sector," Boulger added. "When Greece fully defaults, banks will have to make more writedowns, and they will grow more afraid of lending to one another. That could cause funding to dry up." Even if the base rate remains at its current record low until the middle of 2013, as Boulger expects, "mortgage rates could still go up due to a lack of competition. It's little surprise that a lot of people still value the security of a fixed rate."