Is now the right time to fix your mortgage for the next ten years?

- **Richard Agar, 24, who recently bought his first property last month with a ten-year fixed-rate mortgage** James Glossop for The Times

Leah Milner
August 27 2011 12:01AM

Rates on long-term deals fell to a record low this week but there are hidden catches. Leah Milner reports

Mortgage rates sank to a record low this week, with one building society launching the first ten-year, fixed-rate deal at less than 4 per cent.
Such low rates on long-term deals were unimaginable even a year ago, and have prompted a flurry of interest from borrowers. But is it ever a good idea to lock in to a ten-year mortgage?

A number of lenders are now offering the chance to fix your home loan until 2021 but, while it may be tempting to safeguard your monthly mortgage costs against future rate rises, this security can come at a high price. For a start, lenders have been making it harder for borrowers to take their home loan with them when they move house. This means that anyone who needs to relocate during the fixed-rate period of their home loan could end up paying a hefty penalty.

Aaron Strutt, of the mortgage brokers Trinity Financial Group, says that Chelsea's ten-year fixed rate at 3.99 per cent with a £1,495 fee, which is available to borrowers who have a 30 per cent deposit, is "very cheap and offers great value for money".
He says that the product will appeal to borrowers looking for payment security and will remove the hassle of remortgaging every couple of years, but he cautions that it is unlikely to be suitable for borrowers who anticipate needing to move house within the next decade.

The Financial Ombudsman Service, the independent body that settles disputes between financial companies and their customers, recently reported a rise in the number of complaints about lenders refusing to let borrowers "port" mortgages to a new property.
Ray Boulger, of John Charcol, another broker, says: "Before the credit crunch you could be confident that, providing your personal circumstances did not change, your mortgage

lender would allow you to take your home loan with you if you moved house. Now, you cannot be sure. Even if you have kept up repayments and you do not want to borrow more money, you may no longer meet your lender's criteria."

Even mortgage lenders that explicitly say that their home loans are portable, may refuse a borrower if their circumstances have changed.

Mr Strutt agrees. "Anybody taking a long-term fix needs to be sure that they want to stay in their home because there are no guarantees that their lender will allow them to port the mortgage to another property, especially if they are earning less money."
If a borrower needs to relocate and their mortgage lender refuses, the homeowner may be left with no choice but to pay the early repayment charge in order to get out of their contract. The penalty for repaying the Chelsea mortgage early starts at 7 per cent for the first three years — equivalent to £14,000 on a £200,000 home loan. For this reason, Mr Strutt says that longer-term fixes are more likely to appeal to borrowers who have made their final home move.

Previously, the cost differential between five and ten-year fixed-rate mortgages was much greater, leading many brokers to claim that long-term certainty over payments was not worth the additional premium, but now that the gap has narrowed, fixing for a decade may become more mainstream.

While the cost difference has narrowed significantly, it is still considerable. The best buy five-year fixed rate for borrowers with 30 per cent deposit is currently 3.29 per cent, also from Chelsea , with a £1,495 fee. A borrower with a £200,000 repayment mortgage over a standard 25-year term would pay about £4,500 more during the first five-years of their mortgage term if they took out the ten-year deal rather than the five-year option. Of course, there is no way of knowing what will happen to interest rates over this period and whether a borrower opting for a five-year deal will find that mortgage rates are a lot higher when they come to remortgage in 2016, which could mean that over a decade, a borrower opting for the ten-year deal makes a greater saving.

One of the reasons that fixed-rate mortgages are now so cheap, is that economists are not anticipating an increase in the Bank of England base rate for some time to come. At the start of this year, the markets were expecting interest rates to rise by this summer, yet now they are not pricing in an increase until the middle of 2013.

Samuel Tombs, a UK economist at Capital Economics, the research consultancy, does not expect to see an increase in interest rates before the end of 2013, meaning there could be savings to be made by opting for a tracker mortgage for those prepared to take a risk.

Chelsea Building Society, which is now part of Yorkshire Building Society, also has six and seven-year fixed rates, which are available to borrowers who have a 10 per cent deposit, with the same rates and fees as its five-year deals.
However, taking a long-term fixed rate if you are borrowing at a high LTV may not be sensible for another reason. As you repay more of your mortgage, your LTV should come down, provided that house prices stay the same or increase, but if they fall your LTV will increase. Mr Boulger says: "If you are borrowing at 90 per cent LTV, it is likely to be because you believe that house prices will remain stable or increase."

Mortgage rates tend to be disproportionately higher for borrowers with a deposit of 10 per cent or less, so it may make sense to opt for a shorter-term deal at a cheap rate, which will allow you to make overpayments and then remortgage in a few years when, hopefully, you will be at a lower LTV.

While interest rates may be higher by this time, if the Bank of England base rate has risen, Mr Boulger says that the mortgage market may be healthier and more competitive, which could mean that there are better deals for borrowers with a small deposit. Mansfield Building Society has a 90 per cent LTV three-year fixed rate at 4.1 per cent with a £999 fee, with the valuation fee of up to £400 refunded on completion.

Mr Boulger says that borrowers with a 10 per cent deposit might be better off opting for this deal rather than a seven-year fixed rate. The Mansfield product allows borrowers to overpay by up to 10 per cent of the loan amount each year, so they could make payments as though they were on Chelsea's seven-year rate of 5.29 per cent, which would bring them down to below 85 per cent LTV by the end of three years if house prices remain stable.

Leeds, Skipton and Yorkshire building societies also currently offer long-term fixed rates of between six and ten years, although their rates are not as low as Chelsea's.
Mr Boulger says that borrowers who are finding it difficult to decide between a fixed rate or tracker could get the best of both worlds with a hybrid product from Accord Mortgages, the brokeronly division of Yorkshire Building Society.
The product starts at Bank of England base rate plus 1.69 per cent for the first two years, meaning that for as long as base rate remains on hold, borrowers would pay 2.19 per cent. After two years the mortgage reverts to a three-year fixed rate at 3.64 per cent. The product comes with a £1,995 fee and is open to borrowers who have a 25 per cent deposit.

Mr Boulger says that the advantage of this mortgage compared with similar "switch and fix" deals is that the fixed-rate element is set now, while rates are low. Some other products give borrowers the chance to fix at a later date without penalty, but they may end up doing so at a time when fixed rates have climbed. This means that if Capital Economics is right, and the base rate does not rise before the end of 2013, over five years a borrower opting for the Accord deal would pay an effective rate of 3.06 per cent, which is lower than any of the straightforward fixed rates for this period. Of course, the economists could be wrong and borrowers may end up paying more during the first two years while the mortgage is on a tracker rate, but at least they will be secure in the knowledge that their interest rate will be fixed for the final three years of the deal.

Alternatively, borrowers could choose a tracker with no early repayment charge, such as one from first direct, which starts at 2.09 per cent with a £1,499 fee at 65 per cent LTV. They would then be free to switch to a fixed rate with any lender at any time.