Mortgage brokers: www.trinityfinancialgroup.co.uk - 020 7520 9427

Homeowners are being advised to lock in to a cheap mortgage now, as two-year fixed rates have fallen to their lowest level in history. Brokers expect lenders to withdraw these deals and push rates back up in coming weeks.

On Tuesday, Leeds Building Society launched the lowest ever two-year fixed rate of 1.99 per cent. It is available to borrowers with deposits of 25 per cent or more and has a fee of £1,999.
More

By setting its new rate below 2 per cent, Leeds has brought the cost of a fixed-rate mortgage in line with the cheapest tracker rate mortgages for the first time in years.

“We are seeing an increase in clients taking two-year fixes rather than trackers because the difference between them is now so low,” said Aaron Strutt of Trinity Financial.

However, experts warned borrowers that mortgage rates are unlikely to remain this low for long. Several lenders increased the cost of their tracker deals in the past week, in response to a rise in the cost of wholesale funding, driven by concerns over the eurozone debt crisis.

Three-month Libor – the rate at which banks lend to each other, which determines the cost of mortgages – rose from 0.83 per cent in August to 0.95 per cent this week. As a result, Abbey for Intermediaries became the latest lender to increase the cost of its tracker mortgages, following similar moves by Woolwich and ING Direct in the week before.

A report by Capital Economics published on Monday also warned that the supply of mortgage credit over the next year was likely to remain restricted – and potentially more expensive – due to the escalating eurozone debt crisis.

“I believe mortgage rates in four or five months won’t be as competitive as they are now,” said Andrew Montlake of Coreco, the mortgage broker. “This won’t be because the base rate has risen, but because the eurozone crisis is hitting the supply of money and the cost of funding for lenders.”