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In a fix over cheapest two-year mortgage

By Tanya Powley

Two-year fixed-rate mortgages have become a more attractive option for many homeowners following the launch of the [first-ever fix below 2 per cent this week](#) – a move that brings the cost of fixing a loan on par with the cheapest two-year tracker deals.

Leeds Building Society is now offering a two-year fixed rate of 1.99 per cent, with a fee of £1,999, available to homeowners looking to borrow up to 75 per cent of a property's value.

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Until now, mortgage brokers have typically advised borrowers [against taking out a short-term fixed rate](#), on the basis that interest rates are expected to stay at 0.5 per cent for the next two years, and lower rates have been available through tracker-rate deals.

However, in recent weeks, this price differential has virtually disappeared. Two-year fixes are now available at the same price as the cheapest tracker loans, while some lenders have started offering lower rates on fixed-rate products than on their comparable tracker deals.

Leeds' deal is as cheap as the best-buy two-year tracker for 75 per cent loan-to-value ratios. Accord Mortgages has a two-year tracker at 1.99 per cent – Bank of England base rate plus 1.49 percentage points – with a £1,995 fee. Only Skipton Building Society has a cheaper two-year tracker, currently charging 1.98 per cent, but it is only available for loans up to 60 per cent of a property's value.

Last week, Woolwich increased its tracker rates, which means that its best two-year fixed rate of 2.48 per cent – available at up to 70 per cent loan-to-value with a £1,999 fee – is now cheaper than its comparable two-year tracker rate of 2.49 per cent.

“Up to now, we have been recommending that people only consider fixed rates for at least four years as the premium paid over variable rates was too high, given the expectations for the continuing very low Bank base rate,” explained Nigel Bedford of Largemortgageloans.com. “However, the launch of the two-year fixed rates from Leeds Building Society – and, for those borrowing between £1m to £2m, the Woolwich – now means these two-year fixed rates are a very attractive option and well worth taking.”

David Hollingworth of London & Country Mortgage Brokers agreed. “With prices getting on par with tracker rates for two years, I think a lot of people would opt for the fix because of the added security,” he said. “The only downside would be if the Bank of England cuts base rate to [0.25 per cent](#) which some people have suggested might happen.”

On Thursday, Abbey for Intermediaries became the latest lender to increase its two-year tracker rates, narrowing the price differential between its fixed and tracker products. It now has a two-year tracker at 2.55 per cent, with a £995 fee at 70 per cent loan-to-value, only fractionally cheaper than its two-year fix at 2.65 per cent. “More borrowers will consider taking the fixed rate when the margins are so slim,” suggested Aaron Strutt of Trinity Financial.

But homeowners considering a two-year fix are advised to look closely at the small print of each product. While Leeds’ deal is competitive, the effective rate is actually higher than 1.99 per cent as the building society is one of only two UK lenders to calculate interest annually, rather than daily.

According to Ray Boulger of broker John Charcol, a rate of 1.99 per cent calculated annually on a 25-year repayment mortgage is equivalent to a rate of 2.14 per cent calculated daily – the system that most lenders use.

Even so, this is still cheaper than the next best two-year fix in the market: 2.24 per cent from The Mortgage Works, part of the Nationwide Building Society. Not all homeowners will save money with the 1.99 per cent rate, though. Some will be better off opting for a more expensive two-year fix with a [smaller fee](#). According to [Moneysupermarket.com](#), the £1,999 fee charged for the Leeds two-year fixed rate means it is only a best buy for customers looking to borrow more than £164,350. Those with smaller loans will be better off with Yorkshire Building Society’s two-year fix at 2.49 per cent, which comes with a lower fee of £995.

To secure any of these two-year deals, homeowners are being advised to move fast – as brokers believe the current rates are unlikely to be available for long. Leeds Building Society says it has a “strictly limited tranche” of funding for its 1.99 per cent fixed rate, which could see the deal withdrawn within a week.

Brokers are expecting mortgage lending to become more constrained in coming months as the eurozone debt crisis puts pressure on the cost of funding for lenders, leading to higher mortgage rates.

“It is getting increasingly risky to keep playing the waiting game, as the chances of more attractive new deals being available in the coming months recedes,” explains

Bedford. “With rates as low as they are now, there is little to lose by locking into either a fixed or tracker rate now.”