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Fancy fixing your mortgage for 30 years?

By Tanya Powley

Here we go again. This week housing minister Grant Shapps made the headlines by calling for the introduction of 30-year fixed-rate mortgages - or what he likes to call "peace of mind mortgages".

I say here we go again because this idea has already been touted by Gordon Brown in 2004, when he commissioned a report into the long-term fixed-rate mortgage market, and again by Alistair Darling in 2007.

So, now it seems it is Shapps turn to go down the same route.
At the Building Societies Association's annual conference, Shapps made a speech in which he questioned whether the mortgage market catered to people who want long-term certainty.

He noted that there are products in other fields that provide households with a sense of "certainty and security", such as being able to fix your gas bill until 2014, or getting a five-year fixed-rate loan on a car.

Shapps then questioned whether the mortgage market caters to people who want long-term certainty.

And for me the answer would be yes, in the form of a five-year fixed-rate mortgage. For those that want longer security, then banks and building societies provide longer options of 7 years or even 10 years.

The reason that the mortgage industry does not typically offer 25-year or even 30-year fixed-rate mortgages is due to the lack of consumer demand and the disadvantages that apply to longer-term deals. Long-term fixed-rates have been tried before and have seen a limited take-up.

An important point to make is that while longer-term mortgages do of course provide a sense of security and protect borrowers from future increases in interest rates, they also come with some significant downsides.

By locking into a mortgage for such a long period of time, problems inevitably arise. These deals often come with large redemption penalties for borrowers who want to exit the deal. For example, Yorkshire Building Society has a ten-year fix at 4.39 per cent with repayment penalties of 7 per cent of the mortgage for the first three years, says Aaron Strutt of Trinity Financial, the mortgage broker. For a longer term deal, the penalties could apply for the first 10 years.

The recent tightening of criteria by lenders has also highlighted problems of "porting" - or moving - an existing mortgage to a new property. Earlier this year, the Financial Ombudsman Service reported an increase in the number of complaints from customers whose application to move their mortgage had been declined because lenders had tightened their criteria since the deals were granted.

As David Hollingworth of London & Country, the mortgage broker, notes: "Borrowers remain wary of locking in for too long especially when the more limited flexibility of porting a mortgage has been shown up by recent issues where borrowers have struggled to meet lenders' tougher criteria and therefore find they are unable to port and top up borrowing levels."

These aren't the only problems. Mortgage rates on longer-term deals are unlikely to be as competitive as shorter-term options, so will fail to attract borrowers. Consumers may well want long-term certainty, but they tend to be more interested in a cheap rate.

Yes, other countries such as Germany, France and Scandinavia offer these deals - but the only way they will be an attractive and popular option in the UK is if rates are comparable to shorter-term deals, redemption penalties are occur in the first few year, and if there is flexibility in being able to port the mortgage when the borrower moves.

Until then, it might be better for Shapps to promote some other cause.