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

Fixed-rate mortgages buck rising trend

By Tanya Powley

Homeowners can now secure cheaper fixed-rate mortgages than they could a year ago – in spite of concerns that loans are becoming more expensive.
According to an FT Money analysis of best-buy deals, a borrower needing a £300,000 mortgage can now fix at a significantly lower rate than was possible in January 2011.

At present, the best-buy two-year fixed rate is 2.28 per cent from HSBC – 0.61 percentage points cheaper than the equivalent deal a year ago. Similarly, five-year fixed rates have fallen substantially. First Direct now has the cheapest deal at 3.28 per cent, compared with last year's market leading rate of 3.99 per cent, from Accord.

This week, a new cheapest-ever ten-year fixed-rate mortgage was launched, enabling homeowners to fix their loan at sub-4 per cent for a decade. Norwich & Peterborough Building Society is offering a ten-year fix at 3.99 per cent, available to those with deposits of 25 per cent or more, with a £295 fee. Last January, the best ten-year fix was 0.85 percentage points more expensive, with a £1,995 fee.

However, not all mortgage deals are cheaper now. While homeowners can get a more competitive two-year tracker at a current rate of 1.99 per cent – Bank of England base rate plus 1.49 percentage points – from First Direct, the cost of lifetime trackers has increased compared with a year ago.

"There is a real mixture of mortgage news at the moment," noted Aaron Strutt of Trinity Financial, the mortgage broker. "A few lenders have been able to secure cheaper funding and lower their rates, but others have made big increases."

Fixed rates have fallen largely on the back of market expectations that interest rates will remain low for the next few years. Five-year swap rates – which lenders use to price their fixed-rate mortgages – have fallen from 2.1 per cent last August to 1.6 per cent today.

But not all lenders are cutting their fixed rates.

This week, Nationwide Building Society increased the cost of its two, three and five-year fixed-rates available up to 85 per cent loan-to-value by as much as 0.30 percentage points.

According to David Hollingworth of London & Country Mortgage Brokers, Nationwide's three-year fixed rate has increased from 3.19 per cent to 3.49 per cent. Both Woolwich and Abbey for Intermediaries also increased their two-year fixes this week.

Longer-term, the outlook for mortgage rates remains uncertain, according to brokers. Hugh Wade-Jones of Enness Private Clients warned that the worsening economic figures, with Britain's GDP falling by 0.2 per cent during the last quarter of 2011, could have a knock on effect to consumer and business confidence and lead banks to "batten down the hatches a little".