

# Fix for a decade at a record low

## Chelsea launches 10-year mortgage deal below 4%, writes James Charles

HOMEOWNERS can lock in to a 10-year fix for under 4% for the first time as the cost of longer-term mortgage deals continues to tumble.

Last week, Chelsea building society, which is owned by Yorkshire building society, introduced the lowest-ever 10-year fixed rate at 3.99% and cut the rate on its best-buy five-year fix by 0.1 percentage point to 3.29%.

Both deals require a 30% deposit and have a £1,495 fee. The deals are available only direct from the lender online, over the phone or in branches.

Calculations by London & Country Mortgages, the broker, for The Sunday Times found that someone locking in to the 10-year deal would save an estimated £6,000 over the next 10 years compared with the cost of five two-year fixes, when the savings on fees and higher interest rates in the future are taken into account.

The figures were based on a £200,000 capital repayment mortgage and the current best-buy two-year fix from Chelsea building society at 2.39%, with a £1,495 fee.

L&C assumed that the cost of a two-year fix increased by one point every two years

for the first six years, and borrowers would have to pay a £1,495 fee each time they remortgaged.

David Hollingworth at L&C said: "Locking into a rate below 4% for the next 10 years looks like a fantastic opportunity for some borrowers. Fixes are at historically low levels and unlikely to fall much lower. However, borrowers considering a 10-year fix should remember that there are heavy penalties for exiting the deal early."

If you need to move house within the term of the deal, you should be able to "port" your mortgage — take it with you — although you are likely to be reassessed on the lender's affordability criteria.

Hollingworth said: "If you want to trade up to a bigger property and borrow more, or your financial circumstances change, your lender may block your application to port."

If you need to get out of the deal early, there is an exit penalty of 7% of the outstanding debt in the first three years, or £14,000 on a £200,000 mortgage. The penalty then falls from 6% to 1% over the remaining seven years.

The Co-operative Bank has a 10-year fix at 5.29% with a £999 fee with a slightly



lower initial exit penalty of 6% for the first six years, falling from 5% to 2% in the remaining four years.

The cost of fixes has fallen to record lows in recent months in response to a slump in money market interest rates. Five-year swap rates, which dictate the cost of five-year fixes, hit 1.74% last week from 2.5% in July, while 10-year swaps dropped to 2.72% from 3.54% over the same period.

Aaron Strutt of Trinity Financial Group, the broker, said: "Longer-term fixes are looking incredibly attractive to borrowers who don't mind locking in for the next five or 10 years."

However, figures from mortgage brokers suggest borrowers remain nervous about taking longer-term deals. Countrywide, the property firm, said that nine out of 10 borrowers took a two-year fix last week, despite forecasts showing that interest rates are unlikely to rise before 2013.

Most mortgage experts argue that there is little point fixing for two years. Ray Boulger at John Charcol said: "People are heavily influenced by the initial interest rate of a deal. However, there is not much to gain by opting for a fixed rate for two years as the evidence suggests that interest rates are set to remain flat."

Lenders are increasingly offering deals that offer the protection of a longer-term fix, but with the flexibility of shorter deals.

### Split your loan

Borrowers could benefit from both ultra-low tracker rates and the security of a

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Marketing manager Peter Beckett, 37, and wife Caroline, 33, an occupational therapist, from London, took a five-year deal from Accord, which converts from a tracker to a fix. It was arranged through London & Country

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►► Continued from page 1 fix by splitting their loan in half. Chelsea allows borrowers to take its 10-year fix at 3.99% and its two-year tracker at 1.49 points above Bank rate, or 1.99%, with a £1,495 fee. Both deals require a 30% deposit.

L&C figures show that someone with a £500,000 mortgage who split their loan between the 10-year fix and rolling two-year trackers would save £2,500 over 10 years compared to the 10-year fix on its own.

The calculations assume that the borrower can remortgage onto a new two-year tracker at the same margin and fee every two years and that Bank rate remains flat until October 2013, then rises by a quarter point every quarter until it reaches 2.75% in 2016 and then remains flat.

Ian Gray of Largemortgages, the broker, said: "As a rule, those borrowing more than £500,000 should look very closely at splitting their loan. With larger loans, even a small saving on interest rates will usually more than pay for a higher fee."

### Tracker to fix deals

Brokers are reporting a brisk trade in hybrid deals, which combine the benefits of a tracker and a fixed rate.

Accord Mortgages, part of Yorkshire and available through brokers, has a five-year deal starting at 1.69 points above Bank rate, so 2.19%, for the first two years, followed by a fix for the remaining three years at 3.64%. This compares with the best three-year fix today of 2.98%. The deal is available to borrowers with a 25% deposit but has a £1,995 fee.

If Bank rate does not rise for the next two years, as forecast by money markets, the effective rate over five years would be 3.06%. This is an average of the rate over five years assuming the tracker stays at 2.19% for the first two.

Boulger said: "We are seeing strong demand for this

hybrid deal. If Bank rate remains flat for two years, which is likely, it has a lower overall rate than the cheapest five-year fix."

Calculations by L&C show that someone with a £200,000 repayment loan would pay £58,968 over five years with the Accord deal, compared with £60,226 on the cheapest five-year fix at 3.29% from Chelsea — a £1,258 saving. This assumes Bank rate stays flat until October 2013, then rises by a quarter point every quarter.

If Bank rate starts rising by a quarter point every quarter from November 2012, as predicted by Deutsche Bank, the Accord deal would be £965 cheaper over five years.

### No exit penalties

Those who want to take advantage of historically low fixed rates without the fear of locking in for five years, should consider the latest penalty-free deals.

Most standard deals charge a penalty if you need to remortgage early, for example because you want to move house and cannot port your loan. Those taking the Chelsea five-year deal would be charged 5% of their outstanding loan for the first three years, falling to 3% in the final year.

Someone with a £200,000 loan who needed to remortgage after three years would have to pay a charge of £9,187.

However, Newcastle building society last week introduced a five-year fix that has a penalty-free window every September for borrowers who want to remortgage elsewhere. The rate is 4.89% and a 20% deposit is needed.

Coventry building society does not impose an exit penalty on its five-year fix at 4.35%, with a £995 fee, for those with a 25% deposit. Borrowers will pay a £6,455 premium over five years compared with the best-buy from Chelsea, according to calculations from L&C, although this could work out less than the exit penalty.