

# Fixed loans fall below 4% again

Deals tumble as rates look unlikely to rise this year, writes James Charles

HOMEOWNERS can once again snap up five-year fixed-rate mortgages below 4%, as markets have pushed back expectations for the first rise in Bank rate to January 2012.

Yorkshire building society, the second-biggest mutual lender, unveiled a competitive five-year fix at 3.99% for borrowers with a 25% deposit last week. Chelsea building society, owned by the Yorkshire, also cut its five-year fix to 3.89%, but it requires a 40% deposit and has a £1,995 fee.

The average five-year fix has fallen to 5.41%, the lowest since January, said Moneyfacts, the data firm. The Bank of England said two-year fixes for those with a 25% deposit were the lowest on record, at 3.47% in May, against 3.66% in April.

It comes as weak economic data has forced markets to reassess when Bank rate is likely to rise from its record low of 0.5%. Earlier this year, the first increase was expected in May, but Bank rate is now expected to rise to 0.75% in January and 1% in August next year.

Nida Ali, economic adviser to the Ernst & Young Item Club, said: "The sustainability of the recovery is more questionable than ever and, in this uncertain economic climate, it is difficult to envisage an increase in interest rates any time soon."

## Is it worth fixing below 4%?

Someone with a £200,000 capital repayment mortgage on a standard variable rate (SVR) of 2.5% would see repayments rise £90 a month by switching to the Yorkshire 3.99% fix, and over five years, they would save only £800 by opting for the deal, according to calculations for The Sunday

Times by L&C, the broker. It is based on the SVR pegged to Bank rate rising in line with current market expectations to 4.75% by 2016. A borrower on an average SVR of 4.8% would see repayments fall £150 a month and would save more than £17,260 over five years with the Yorkshire deal, assuming the SVR rose in line with Bank rate.

Aaron Strutt at Trinity Financial Group said: "Fixed rates look really attractive, providing a boost for borrowers who have been waiting for five-year fixes to fall below 4%."

## I can't bring myself to fix. What about variable rates?

Forecasts that Bank rate could remain low until the end of the year are leading more homeowners to gamble on a variable rate instead, say brokers. Two-thirds of those taking out a mortgage in the past week have opted for a variable-rate tracker over a fix, figures from broker John Charcol show.

Last week, Abbey for Intermediaries, which offers deals exclusively through brokers and is owned by Santander, introduced a rock-bottom two-year tracker at 1.49 points above Bank rate, so 1.99%, for those with a 30% deposit. It has a £999 fee and is available only until Friday.

Ian Gray at largemortgage.com, a broker, said: "Those with loans worth £500,000 sitting on an SVR of 2.5% could save more than £4,100 over two years by taking the Abbey deal." However, he warned that those with smaller loans may not benefit enough to outweigh the fees.

Ray Boulger at John Charcol recommends a lifetime tracker with no exit penalties, which would allow borrowers to

switch to a fix if signals emerge that rates will rise sooner than expected.

HSBC has a best-buy lifetime tracker at 1.89 points above Bank rate, so 2.39% with no fee and no exit penalties, for those with a 40% deposit.

## I locked into a fix too early. What can I do?

Research by Defaqto, the data firm, shows that a borrower who took a £200,000 loan in August 2008 on a five-year fix at 5.99%, rather than the average five-year tracker at 6.31%, has missed out on savings from lower repayments worth about £20,550. Bank rate fell from 5% to 0.5% in the seven months to March 2009.

David Black at Defaqto said: "It is often a real quandary whether to opt for a fixed or variable mortgage, and it is only with hindsight that you can tell whether your decision was financially beneficial."

Calculations by L&C show that someone who took out a five-year fix in 2008 at 5.99% on a £200,000 loan could still save £5,405 in the next two years by paying an exit fee of £4,000 and switching to the Abbey two-year fix at 2.89%, with a £995 fee. Someone who took out a 10-year deal at 5.99% could save £9,000 over the next five years by switching to the Yorkshire fix at 3.99%.

David Hollingworth of L&C said: "The door is not entirely closed to borrowers who feel they have been left high and dry on a costly fix. However, there is the hurdle of the exit penalty, as well as other fees for taking the new deal to consider."

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