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Book now for a cheaper 2012 mortgage

By Tanya Powley

Homeowners concerned about rising costs should consider reserving a competitive mortgage deal now – even if they're not moving or refinancing until 2012 – as some lenders will let borrowers reserve a rate six months in advance.

More lenders increased their mortgage rates this week, as the eurozone debt crisis continued to drive up the cost of wholesale funding. Nationwide Building Society, Woolwich and ING Direct all raised rates, with Woolwich increasing some by as much as 50 basis points.

But mortgage brokers are concerned that some homeowners still believe mortgage rates will remain low – or fall – because the Bank of England base rate remains at 0.5 per cent.

"People are seeing base rate remaining at 0.5 per cent and still seem to think that mortgage rates will also remain as low as they are currently," said Nigel Bedford of Largemortgageloans.com.

"I feel this could be a dangerous strategy as the base rate is now so far removed from the true cost of providing mortgages, both variable and fixed rates, and the fragile state of the economy could well lead to mortgage rates increasing irrespective of what the Bank of England do," he warned.

Martyn Smith, head of mortgage products at Legal & General, agreed. "Although there is a general view that base rates will be held for the next 12 months or so, there are other factors that can impact on product pricing – and we have seen some upward movement in rates recently," he said.

While homeowners are typically advised to think about remortgaging three to four months before the end of their current deal, it is possible to secure a mortgage rate even earlier by using lenders that operate long "offer periods".

This is also true for individuals looking to move home in the coming months.

"Mortgage rates are likely to get more expensive in the coming months so locking into a deal now could be a good idea," argued David Hollingworth of London & Country, the mortgage broker.

Offer periods – the time between the lender making a formal mortgage offer to a borrower, and the deadline for the borrower to complete on the property deal – can vary from lender to lender.

Some allow only three months, but others give applicants up to six months. Lenders may also differentiate between borrowers remortgaging an existing property and those buying a new home – giving purchasers the longer time frame.

Alternatively, some lenders will set fixed completion deadlines for specific products, rather than giving three- or six-month offer periods. For example, Woolwich has a current completion deadline of May 31 2012 across all of its products. This will change when the lender issues a new product range.

Other banks use offer periods and completion deadlines. ING Direct's mortgage offers are valid for six months from the point of offer being made, subject to its overall completion deadline. So, depending on when a customer applies and how long it takes to make an offer, the product completion deadline could be before the offer period expires.

For homeowners wanting to secure a mortgage rate as far in advance as possible, the choice of lenders that allow rates to be booked up to six months in advance remains large. It includes ING Direct, First Direct, Yorkshire Building Society, Coventry Building Society and Woolwich. Last month, Accord Mortgages increased its offer period from three to six months.

Some borrowers may even be able to reserve a rate for longer than six months. With Nationwide, borrowers can "reserve" a mortgage for 90 days and, in that time period, the borrower can get a full offer. After that, the borrower has a further six months to complete a house purchase, or three months for a remortgage.

To reserve a rate, most lenders will require a non-refundable booking fee of between £100 to £250 to be paid.

According to mortgage brokers, it is also possible to extend an offer period or completion deadline if there has been a delay in the purchase. "Lenders treat missed completion deadlines in different ways," explained Smith. "If the delay is minimal, some lenders will have more flexibility than others – so it's best to keep the lender informed as soon as you think there might be a problem, to agree how to proceed."

Private banks' offer periods tend to be three months – although most will reissue an offer for another three months, as long as there has been no adverse change to a borrower's circumstances and there is a genuine reason for doing so, said Bedford.

However, some lenders may require the property to be revalued and the borrower's income and credit status to be verified again. If the mortgage product is withdrawn before then, the borrower will have to take another product and pay another product fee.

"No bank will simply keep on renewing offers just because a client wants to keep the option of a good deal," explained Bedford.

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