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THE SUNDAY TIMES

Buyers look for long-term fixed deals as rate rise looms

Lenders offer deals for up to 40 years

Anna Mikhailova Published: 2 February 2014



Young homeowners are taking out mortgages lasting half their lifetimes (Anthony Bradshaw)

also get the 4.49% rate for 25% deposits, but for a higher fee of £1,999.

Norwich & Peterborough building society is offering the cheapest 10-year fix, at 3.84%, and there is no fee.

There are 20 mortgages fixed for 10 years from which to choose today, up from 16 a year ago, according to the data firm Moneyfacts. Charlotte Nelson of Moneyfacts said: "Fixed rates of 10 years or more give borrowers peace of mind, knowing that what they will have to pay will remain unchanged for 10 years."

"They should, though, be mindful of any high penalties if they move during the term."

As the expectation of a Bank rate rise grows, the number of homeowners fixing for longer than two years is expected to increase.

The mortgage broker John Charcol said 36% of its clients took out five-year fixes last year — up from 22% in 2012.

Should I take out a 40-year mortgage?

Young borrowers are increasingly arranging mortgages that will last half their lifetimes. Last week, Council of Mortgage Lenders data showed that longer-term deals are a growing trend, with 52% of loans now taken out for more than the traditional 25 years, up from 40% in 2007.

Jonathan Harris of the broker Anderson Harris said: "The standard 25-year mortgage term is a thing of the past.

"Most young buyers, in particular, want to extend their terms as far as they can to keep down their monthly payments."

A number of mainstream lenders now offer 40-year loans, including Nationwide, Halifax and Clydesdale. Many more have 35-year deals.

Taking out a £200,000 loan for 40 years with Tesco bank would cost £605 a month, according to the broker largemortgageloans.com. On a 25-year term with Tesco, the repayments would be £847. Tesco has a two-year deal at 1.99% with a £1,495 fee.

The longer-term deal would prove significantly more expensive over the term, but it is a good option for first-time buyers who cannot afford high

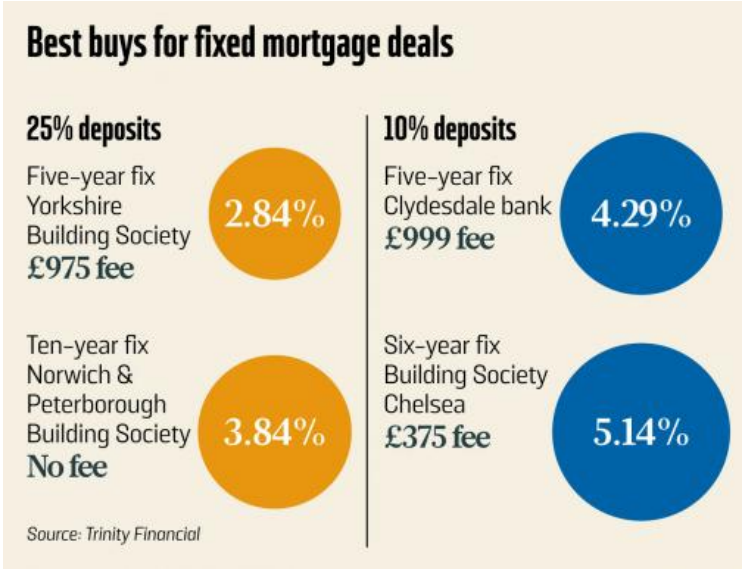
BORROWERS are increasingly opting for long fixes as the cheapest deals on the market disappear amid growing expectations of rate rises.

Tesco bank pulled the best five-year fix on the market last week. The 2.79% deal was available for those with 40% deposits. The cheapest five-year deal is now 2.84%, from Yorkshire BS.

The government's Funding for Lending Scheme, which significantly lowered mortgage rates by providing cheap money for banks, was withdrawn for residential loans last month. Also, swap rates — the wholesale money market rates that influence mortgage pricing — have also been creeping up. All of this is putting upward pressure on loan rates.

Brokers are advising homeowners to fix for longer while Bank rate remains at its record low. Ten-year fixes have become increasingly competitive.

Previously, they were seen as having high rates and high fees. However, Leeds building society has launched a competitive 10-year fix at 4.49% with a fee of only £199. The minimum deposit is 35%. You can



monthly payments and who no longer have the option of interest-only deals.

Ian Gray of largemortgageloans.com said: “Stretching out to very long terms always costs more in the end because your debt is there much longer. You are paying your mortgage down a lot more slowly, so you are paying the bank a lot more interest.”

Brokers point out that borrowers who took out such a long mortgage term would not have to stick with it. They would be able to shorten the term by remortgaging or making overpayments to repay it faster.

It is important, therefore, to check the lender’s policy on overpayment. The maximum amount by which you can reduce your mortgage each year varies between banks, although it is typically no more than 10% of the loan.

Many of the lenders cap their maximum age at 70 so applicants will typically need to be below 30 years old to get a 40-year mortgage. Some, though, are willing to help slightly older borrowers. Nationwide, for example, will lend for those up to 75.

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 Paul Welch

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