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Fixed-rate mortgages drop below 2%

By Tanya Powley

The cost of fixing a mortgage has fallen significantly over the past two years, with two-year fixed rates now available from as little as 1.98 per cent.

HSBC has this week cut its two-year fixed rate to 1.98 per cent for borrowers with deposits – or equity – of 40 per cent or more. Meanwhile, more lenders including Norwich & Peterborough Building Society and Chelsea Building Society have launched deals at 1.99 per cent, alongside Yorkshire Building Society.

Unlike previous cheap headline rates, most of these deals come with a competitive £995 fee. HSBC's 1.98 per cent deal comes with a £1,999 fee.

This means it is 1.47 percentage points cheaper for homeowners with a 40 per cent deposit – or equity – to fix their mortgage today compared to two years ago.

The cost of fixing has also fallen for borrowers with smaller deposits. Two years ago the best-buy deal for a homeowner with a 15 per cent deposit was 5.15 per cent. The best rate today is 1.67 percentage points cheaper at 3.48 per cent.

Lenders have been making the biggest rate reductions to fixed-rate deals, resulting in fixed-rates now being cheaper than comparable variable rate products.

"The mortgage market is currently dominated by fixed rates, which is where the best deals generally are if you make a direct comparison with tracker products using similar loan to values and arrangement fees," said Martyn Smith, a mortgage broker at Legal & General.

While two-year fixes are currently the cheapest option, advisers say homeowners should consider the longer term view and what rates may be available after two years.

According to Ray Boulger of John Charcol, borrowers happy to fix their mortgage for five years should consider paying the small premium to get a longer deal, because rates will almost certainly be rising by then. The best-buy rate at 60 per cent loan-to-value is 2.74 per cent from the Post Office, and 3.04 per cent at 75 per cent loan-to-value.

Some private banks will offer five-year trackers for as low as 2.15 per cent for clients borrowing £1m or more with assets to place with the bank.

Nigel Bedford of Largemortgageloans.com said that many of his clients are willing to pay a premium to secure a deal for five years or longer to give more security against rates rising in the medium term.

Borrowers taking out a short-term deal could also consider choosing one with a competitive reversion rate. Aaron Strutt of mortgage broker Trinity Financial noted that Chelsea's standard variable rate (SVR) is fairly high at 5.79 per cent, compared to HSBC's SVR of 3.94 per cent.

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