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Homeowners lured by low mortgage rates

By Tanya Powley



Homeowners are increasingly opting to fix their mortgage rates as lenders continue to cut deals to record lows.

New figures published on Thursday reveal that mortgage lending jumped to its highest level since the start of the credit crunch. Gross lending rose 21 per cent in May to £14.7bn, the highest monthly

jump since October 2008, according to the Council of Mortgage Lenders.

This total is 17 per cent higher than the £12.6bn lent a year ago.

Experts say the rise in lending comes on the back of falling mortgage rates, driven by the government's Funding for Lending Scheme launched last August. This has seen banks and building societies cut the cost of borrowing, resulting in some of the cheapest-ever fixed-rate loans.

On Thursday, Yorkshire Building Society launched the lowest ever ten-year fixed rate mortgage at 3.89 per cent. The rate is available for borrowers with deposits of 25 per cent or more and comes with a low booking fee of £130.

While ten-year fixed-rate deals are typically less popular with borrowers, due to the long-term commitment needed, demand for two and five-year fixes have soared in recent months as rates continue to fall.

The lowest five-year rate available to homebuyers is 2.44 per cent from Yorkshire Building Society. It has a maximum loan-to-value of 65 per cent and has a £1,345 fee.

Mark Harris, chief executive of mortgage broker SPF Private Clients, said: "Falling mortgage rates on the back of Funding for Lending are resulting in some of the cheapest fixed-rate mortgages ever, and this trend shows no signs of abating."

The reductions have seen more homeowners choose to fix their home loan, rather than opting for a variable rate mortgage.

According to Legal & General Mortgage Club, the mortgage broker, over 90 per cent of its mortgage applications this year have been for fixed-rate deals. Of these, about 60 per cent are for a two-year fix.

Figures from John Charcol, the mortgage broker, support this trend. It found that 85 per cent of borrowers have taken out a fixed-rate loan so far this month, up from 81 per cent in May. This compares to just 14 per cent of homeowners who opted for a fixed-rate through John Charcol in 2008.

“There’s an interesting battle going on with longer term fixed rates at the moment,” said Nigel Bedford of Largemortgageloans, the mortgage broker.

“Five-year swaps have increased by 0.34 percentage points over the past month, from 1.06 per cent to 1.40 per cent today, and normally one would expect this to feed into higher 5-year fixed-rate mortgages,” Bedford added.

Banks and building societies are also targeting the million-pound mortgage market. On Thursday, Accord Mortgages launched a two-year fix at 1.99 per cent available for homebuyers seeking to borrow up to £3m. It has a maximum loan-to-value of 75 per cent and the deal is only available for seven days.

“It is unusual for a lender to offer such a competitive rate with such a large maximum loan size,” said Aaron Strutt of Trinity Financial, the mortgage broker.

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