

# How to profit from mortgage price war

VICKI COUCHMAN

Banks are offering rock-bottom fixed deals, but watch out for sky-high fees, says James Charles

BANKS have been dramatically reducing interest rates on new mortgage deals, but borrowers have been warned to check for eye-watering fees and charges.

Last week Royal Bank of Scotland, 82%-owned by the taxpayer, became the latest lender to launch a rock-bottom five-year fixed-rate deal. It has a rate of 2.95%, but also a hefty £2,495 fee.

It follows similar moves last month by HSBC and Santander, which introduced five-year fixed rates at 2.99% with fees of just under £1,500. Meanwhile, Nationwide launched the cheapest-ever four-year fix at 2.89% with a £900 fee for existing current account customers. All the deals are reserved for those with a 40% deposit.

Figures from Moneyfacts show that the average five-year fixed rate has fallen to 4.73% from 4.9% in June.

The mortgage market is set to be further boosted by the arrival of Tesco Bank, which tomorrow introduces home loans for the first time. However, the rates are less competitive compared to the best buy deals currently available.

The flurry of ultra-cheap fixed rates follows the launch last week of the Funding for Lending scheme by the Treasury and the Bank of England. The £80 billion initiative will lower the cost of borrowing for banks and building societies — but only if they agree to pass on some of the savings to customers in the form of cheaper loans.

Banks will initially be able to borrow 5% of the amount they currently lend, but only if they increase new lending. The 18-month programme will allow banks to borrow for four years at 0.25 points above Bank rate, so 0.75% — much lower than the current rates on wholesale markets.

Aaron Strutt of Trinity Financial, the broker, said: "There is certainly the potential for rates to come down even further. On the back of this scheme we have told some of our clients to wait and see what happens to rates as they are likely to tumble."

Over the past fortnight lenders have been taking advantage of the drop in wholesale borrowing costs that followed the announcement of Funding for Lending in June. Last week five-year swaps, the money-market rates that dictate the cost of five-year fixes, fell to 1.01%, down from 1.42% in June.

However, brokers argue that borrowers could still be better off taking a tracker as economists predict that Bank rate will stay low for even longer than previously thought — and could fall further.

Capital Economics, the consultancy, pre-



Amanda Copeand, 35, a housewife, and husband Ryan, 35, a medical director, paid a break out of their five-year fix with Northern Rock at 4.79%. Instead, they are taking a lifetime tracker through largemortgageloans.com, their broker.

They paid an exit fee of £6,500 to leave their fix, which started in 2009. Amanda said: "We chose a five-year rate because we didn't think we would want to move and the rate looked competitive."

"This time we are opting for a tracker deal because it looks unlikely that Bank rate will increase and a tracker gives us more flexibility."

The couple, from Maida Vale, northwest London, are pictured with children Benjamin, 2, and Alexi, 1.

dicts Bank rate will fall by a quarter-point to 0.25% in November, then will follow current market expectation for it to rise back to 0.5% in July 2014 and 0.75% in May 2016.

## Fix or track?

The best buy lifetime tracker is from HSBC at 2.14 points above Bank rate, so 2.64%, with a fee of £999. It requires a 40% deposit.

Calculations by L&C, the broker, based on someone with a £200,000 mortgage, using the scenario of a rate cut to 0.25% in November and then a rise to 0.5% in 2014 and a further rise in 2016, show the tracker would cost £55,459 over five years — a saving of £2,882 compared to the HSBC five-year fix at 2.99% with a £1,495 fee.

David Hollingworth of L&C said: "Trackers remain the cheapest option and will be attractive to borrowers who believe Bank rate could fall further. The HSBC lifetime tracker also has no exit penalties, giving borrowers more options. However, some homeowners will want the security of a fixed-rate deal and it is difficult to fault the current range of deals below 3%."

## Consider the total cost

The RBS five-year deal at 2.95% is the lowest rate on the market, but it has among one of the highest fees at £2,495. The best buy five-year deal with no fee is from HSBC at 3.49%. Both need a 40% deposit.

Calculations from L&C show that borrowers taking a mortgage of more than £92,407 would be better off taking the HSBC deal, based on the total cost of the mortgage over the first five years.

Ian Gray of Largemortgageloans, the broker, said: "As a general rule of thumb, those taking loans of less than £100,000 should focus on paying the lowest fee, while those borrowing more will be better off taking the best rate and paying a slightly higher fee."

## Check the exit fees

Borrowers need to think carefully before locking into a fixed-rate for the longer term. Deals carry hefty exit penalties, known as early repayment charges (ERCs) for those who remortgage or clear the debt before the end of the introductory period.

Most lenders reduce the fees every year, starting at 5% and falling to 1% in the final year of a five-year deal. However, not all lenders reduce exit fees over time. For

example, Nationwide building society charges 5% in every year of its five-year fix.

Someone with a £200,000 loan who took the five-year deal at 3.69% and needed to remortgage in the fifth year would pay an exit fee of £10,000 to Nationwide, compared to £4,000 for a similar deal from Leek United building society, which charges an ERC of only 2% through the deal.

Hollingworth said: "Don't get caught in a long-term mortgage trap. There will be a harsh penalty to break from the deal. That will help you judge how long to fix for."

If you do not want to lock in for the longer term, the best two-year deal is from First Direct at 2.64% with a £1,999 fee and a 35% deposit, or 3.29% from Woolwich with no fee for those with a 30% deposit.

## Break your fix?

The introduction of ultra-low long-term fixed rates may prompt homeowners to consider switching out of their current deal and paying a hefty exit fee.

L&C calculations show that someone who took a five-year fixed-rate deal from Halifax in 2010 would be paying 4.99% until 2015. Repayments would be £831 a month on a £200,000 interest-only loan. The ERC is currently 4% or £8,000.

Switching to the HSBC 2.99% deal would cut repayments to £498 a month, saving £333 a month or £12,000 over three years. After the £1,495 HSBC fee, the saving would be £2,501. In October the EERC would fall to 3%, increasing total savings to £4,501, although the HSBC deal may not still be available.

## Best-buys

First Direct  
Two-year fix  
35% deposit

2.64%

£1,499 fee

HSBC  
Five-year fix  
40% deposit

2.99%

£1,495 fee

HSBC  
Lifetime tracker  
35% deposit

\*2.14 points above Bank rate

2.64%\*

£999 fee

Source: Trinity Financial