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# Lenders push two-year fixed rates

By Tanya Powley

Banks and building societies have cut the cost of two-year fixed-rate mortgages as they look to attract borrowers – but experts warn that longer term deals are likely to offer better value for most homeowners.

Several lenders have launched competitive two-year fixes in recent weeks, including Virgin Money and Abbey for Intermediaries. The latter offers a best-buy rate of 2.79 per cent, available to borrowers with a 40 per cent deposit, with a £995 fee.

Recent cuts mean that many lenders now offer lower rates on their two-year fixes than their two-year trackers – making fixing often the better option for those looking for a short-term loan.

For example, a homeowner borrowing £600,000 to buy a £1m house can obtain a cheaper two-year fix than a two-year variable rate from Abbey, NatWest, Nationwide, Virgin and Woolwich, according to Nigel Bedford, senior partner at Largemortgageloans.com. Abbey's comparable two-year tracker is 20 basis points more expensive at 2.99 per cent, while Nationwide's two-year tracker – at 3.39 per cent – is 10 basis points more expensive than its fixed-rate deal.

"Lenders are offering plenty of competitively priced two-year fixed rates, but they argue that they are responding to demand, offering what the customer wants," said Mark Harris of SPF Private Clients.

While two-year fixes can suit some borrowers – especially those who might be looking to move house in the next few years – experts say most homeowners are likely to be better off opting for a five-year fix or a variable rate deal.

"With no prospect of a base rate rise in sight and a slim chance of a cut before the year end, many would question the need to fix a mortgage rate over a two-year term, pretty much regardless of how cheap the rate might be," said Ben Thompson of Legal & General Mortgage Club.

Homeowners who take out a two-year fixed-rate mortgage will have to stump up additional fees when it comes to remortgaging again in two years.

According to Ray Boulger of John Charcol, the mortgage broker, the price differential between fixing mortgage repayments for two or five years remains small. He believes that five-year fixes look good value across all loan-to-value bands up to 90 per cent.

The best buy two-year fix at 60 per cent loan-to-value comes with a rate of 2.79 per cent compared to a rate of 3.09 per cent, from NatWest, to fix for five years. The Natwest deal comes with a £2495 fee.

Meanwhile, the best-buy lifetime tracker for borrowers with a 40 per cent deposit comes with a rate of 2.79 per cent from First Direct, with a £1998 fee.

Experts say borrowers with large mortgage amounts are opting either to fix for five years or take out a lifetime tracker.

“Our clients tend to shun short-term fixes as they don’t give enough flexibility and require the borrower to refinance after a relatively limited period of time,” said Adrian Anderson of Mayfair-based broker Anderson Harris.