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Lenders start fixed-rate price war

By Tanya Powley

Banks and building societies are continuing to launch lower fixed-rate mortgages, with the cost of fixing for two years falling to 1.89 per cent.

On Friday, a fixed-rate price war broke out between lenders, with rates cut to the lowest two and five-year fixed-rate deals in history.

Chelsea Building Society is offering a best-buy two-year fix at 1.89 per cent. The deal is available for homeowners with deposits – or equity – of 40 per cent or more and comes with a £1,695 fee.

Yorkshire Building Society has also cut its two-year fix from 1.99 per cent to 1.94 per cent. It comes with a £1,495 completion fee and a non-refundable fee of £130.

On the same day, First Direct cut its five-year fix to 2.69 per cent, the lowest-ever headline rate for a five-year deal. The deal is available to borrowers with deposits of 35 per cent or more and comes with a £1,999 fee.

This follows the launch of Post Office's cheap five-year deal at 2.74 per cent last week.

According to David Hollingworth of mortgage broker London & Country, there are now 14 lenders offering five-year fixes below 3 per cent.

Meanwhile, Yorkshire Building Society, HSBC, Chelsea Building Society and Norwich & Peterborough all have two-year rates below 2 per cent.

This week, ING Direct also launched a best-buy two-year tracker mortgage at 1.94 per cent – Bank of England base rate plus 1.44 percentage points – at 60 per cent loan-to-value. It comes with a £1,750 product fee and a £195 booking fee.

However, homeowners have been warned to look carefully at the overall cost of any deal, as many of these low rates come with big fees.

For example, HSBC's two-year fix of 1.98 per cent is unlikely to work out as the cheapest deal for any borrower because of the high (£1,999) fee. It also comes with a relatively low maximum loan size of £250,000.

"Borrowers must look beyond the headline rate to find the best deal for their individual circumstances," said Nigel Bedford of Largemortgageloans.com, the mortgage broker.

Similarly, the Post Office's five-year fix of 2.74 per cent is likely to work out the cheapest for the majority of homebuyers.

Post Office's lower fee of £995 means its deal will be the best for homeowners borrowing up to £655,000, based on a 25-year repayment mortgage, said Bedford.

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