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Mortgage rates edge downwards

By Tanya Powley

Mortgage rates are falling for borrowers with large deposits, but lending remains weak despite an uplift in the number of loans approved last month.

This week, Natwest reduced its five-year fixed-rate to 2.99 per cent for borrowers with a deposit – or equity – of 40 per cent or more. The deal comes with a £2,195 fee.

It follows competitively priced 60 per cent loan-to-value deals from Yorkshire Building Society and Tesco Bank in recent weeks.

Yorkshire has a five-year fix at 2.99 per cent with a £1,295 fee, while Tesco has a two-year fix at 1.99 per cent, with a £995 fee.

Ian Gray of Largemortgageloans.com said banks are cutting rates because it has become cheaper for them to borrow money on the wholesale markets.

Cheaper rates have helped boost lending, with banks approving the most mortgages in four months in September. 50,024 loans were approved for house purchases, compared to an average over the past six months of about 48,800, according to the Bank of England.

However, compared to long-term trends, approvals continue to remain low.

Mortgage approvals have averaged 86,048 a month since 1993, and a level of 70,000 to 80,000 has been considered consistent with stable house prices, said Howard Archer of IHS Global Insight.

Experts said that it would take a while for the government's Funding for Lending scheme, which is aimed at lowering banks' funding costs and improving lending to households and small businesses, to have an obvious effect on lending.

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