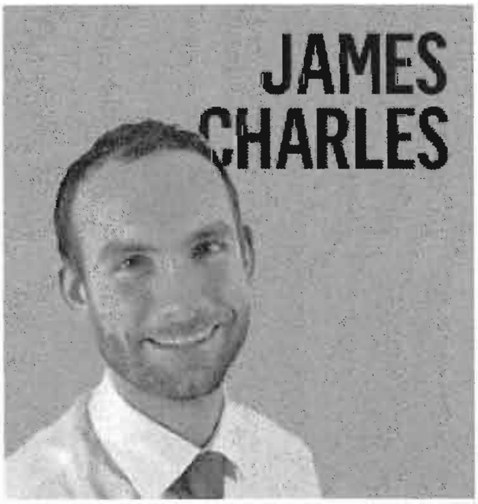
THE SUNDAY TIMES

On the Money: Check small print before taking a longer-term loan

Mortages with 7- or 10-year fixed-rate periods could soon become cheaper, but consider what would happen if you needed to move

James Charles Published: 8 July 2012



Attempts by the Bank of England to resuscitate our flatlining economy by printing money electronically appear increasingly desperate, but it is unlikely to give up any time soon.

Some economists, including Michael Saunders at Citibank, predict that the total level of quantitative easing (QE) will exceed £500 billion.

The effect on stock markets is weakening with each round of QE. The FTSE 100 barely rose on Thursday afternoon immediately after an extra £50 billion was announced by Sir Mervyn King.

Markets price in further rounds of QE weeks, or even months, before they are actually announced.

However, it doesn't seem to be improving our access to mortgages either. Figures from the Bank of England show the supply of money into the economy has barely grown over the last year.

Last month, Mr King recognised the limited effect of QE. He announced plans to relax regulations on the amount of capital that banks must hold in a bid to boost new lending.

He also launched the Funding for Lending scheme directly linking the availability of cheap loans to banks to an increase in lending to both homeowners and small businesses.

There was further positive news last week. The government released a paper proposing to relax restrictions on building society lending, allowing mutuals to secure more funding from wholesale markets.

The measures announced by Mervyn King have started to drive down wholesale market rates, which banks use to borrow from each other. Some lenders have been able to pass on these benefits already.

Last week, Skipton building society introduced a 10-year fixed rate at 4.49% (with a 25% deposit), leapfrogging a similar deal introduced in June by Leeds at 4.58% that topped the best-buy tables, according to Moneyfacts, the data firm.

The Co-operative bank and Woolwich, part of Barclays, charge an even higher 4.99% for the same deal. Compared to these, a borrower with a £250,000 mortgage who took the new Skipton rate would be £8,625 better off according to Largemortgageloans, the broker.

The mutual also launched a competitive seven-year fix at below 4% (3.99%) for those with a 25% deposit.

Experts predict other lenders could soon launch even cheaper longer-term deals as swap rates tumble.

There is certainly an argument for locking into a competitive rate now: the Bank does not look likely to raise rates for the foreseeable future, but most economists expect a rise by 2016 at the latest.

However, as with any very long-term deal, borrowers should consider the rules on transferring your mortgage to a new property.

If you want to move house and take your loan with you within the 7- or 10-year fixed-rate period — known as "porting" — you would need to meet your lender's criteria at the time of the transfer, which could be more onerous than when you took out the loan.

A change in your circumstances could affect affordability calculations: for example, by having children, or switching to a job with a lower salary.

"This is often where borrowers come unstuck," said David Hollingworth at London & Country Mortgages.

Since lenders started tightening criteria after the 2008 credit crunch, many borrowers have been caught by this. If you didn't meet your lender's criteria at the time but still needed to move, you would have had to repay the mortgage early and pay a costly fee, the "early repayment charge".

The 10-year deal charges 6% of your loan amount during the first two years if you want to repay it early and 5% over the next four years, falling gradually to 2% in the 10th year.

The seven-year deal charges 5% during the first four years, reducing in steps to 2% in the seventh year.

James Charles is editor of the Money section