

# Borrowers hit as deals dry up

Lenders rush to pull fixed rates on inflation fears, writes James Charles

LENDERS raced to withdraw competitive fixed-rate mortgages last week just as households were urged to prepare for a rise in borrowing costs in the coming months.

Mervyn King, governor of the Bank of England, signalled on Tuesday that interest rates could rise as early as May to tackle soaring inflation, which hit 4% in January.

In his letter to George Osborne, the chancellor, explaining why inflation was above the 2% target, he appeared to back market expectations that the first rate rise would be a quarter point to 0.75% in May, followed by a second rise in November and possibly even a third by the end of the year to 1.25%.

King later insisted that no decision had been taken, but said: "Anyone making long-term financial decisions should not expect Bank rate to be at these low levels indefinitely."

There are 7m borrowers on variable-rate home loans linked or pegged directly to Bank rate. However, those hoping to switch to the security of a fixed rate deal to protect themselves against rising repayments may have missed the bottom of the market, brokers warned.

Woolwich, the mortgage arm of Barclays, and Skipton and Coventry building societies have pulled their five-year deals and not replaced them.

Ian Gray of largemortgageloans.com, the broker, said: "Longer-term fixes are van-



ishing from the market just as more of our clients are asking for them."

Other lenders, including Santander and Nationwide building society, have pushed up the cost of the deals by up to half a point in the past week.

Yorkshire building society has increased the rate of its best-buy five-year fix three times since January, from 3.69% to 3.99%, then to 4.29% and again to 4.59% last week.

ING Direct, which also had a five-year

fix at 3.69% late last year, is now charging 5.09% for the deal, though it has cut the fee. Both deals are reserved for those with a 40% deposit. The ING Direct change has added £2,750 a year to the repayments on a £200,000 interest-only loan.

Banks and building societies are struggling to keep pace with the volatility in the market, experts said. Five-year swap rates, which dictate the cost of fixes, peaked at their highest level for a year last week at 3.19%, up from 1.94% last October.

The best-buy five-year fix is now from Clydesdale bank at 4.29% for those with a 35% deposit. It has a £995 fee.

Next week, Lloyds Banking Group, the UK's biggest mortgage lender, and Royal Bank of Scotland will release their annual results, which are expected to show a strong improvement in profits.

C&G, part of Lloyds, has increased the cost of its most competitive five-year fix by 1.30 points since the beginning of the year to 5.89% for those with a 25% deposit, according to Moneyfacts, the data firm.

Melanie Bien of Private Finance, the broker, said: "The margin between some of the cheapest standard variable rates and fixes has widened to such an extent that many borrowers on the former could absorb several quarter-point increases in Bank rate before they would be worse off than if they opted for a fix."

Borrowers still weighing up their options could try to reserve the best deal available. However, Aaron Strutt, of Trinity Financial Group said: "You will need to pay a booking fee and go through the process of getting an agreement in principle from the lender, which is not easy at the moment."

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## Savers: offers above 5% are not what they seem

SAVERS should beware inflation-beating products that could leave them worse off than standard savings products over five years, writes Ali Hussain.

Yorkshire building society launched two inflation-linked cash Isas last week to attract savers before the end of the tax year in April, while the Post Office will launch an inflation-linked deposit account this week.

The Post Office deal will pay 1.5 percentage points above the retail prices index each year. With RPI at 5.1%, it

would pay 6.6%. One of the deals from Yorkshire pays 0.1 points above the annual change in RPI each year for the next five years, so 5.2% currently. The other pays a lump sum return equivalent to the change in RPI over five years plus 1.5%. All the deals require customers to lock away their money for five years.

However, economists suggest inflation will start to fall sharply in 2012, so those who lock in now may lose out just as rates on standard savings accounts are rising.

If RPI fell to 3% next year — based on the annual change in RPI in March 2012 — the return on the Yorkshire deal would be just 3.1%.

Kevin Mountford at Moneysupermarket, the comparison site, said: "The likelihood is inflation will start to fall towards the end of this year, while Bank rate will increase."

The best five-year savings account is from Principality, paying 4.85% a year. The best five-year fixed Isa is from Northern Rock at 4.3%.