

Euro crisis hits our mortgages

Rates could be on their way up as the uncertainty continues. By Ali Hussain

BORROWERS have been urged to snap up mortgage deals at record lows amid signs that the ongoing turmoil in the eurozone is starting to push up rates.

Private banks, which often lead the high street banks by several weeks, have started to increase rates for the first time in more than two years. Money market rates, which are used by lenders to fund deals, have also been creeping up despite last week's co-ordinated effort by central banks to ease pressure in the lending markets.

The three-month inter-bank rate, or Libor, which is used to fund variable-rate deals, rose to its highest level since July 2009, while five-year swap rates, used to fund fixed-rate deals, rose from 1.61% to 1.71% last week after being on a downward trend since February.

Ray Boulger at John Charcol, the broker, said: "The fact that money market rates continued to rise after the central bank move [to pump liquidity into the system] suggests that banks remain wary of lending to each other, which will mean less competition and, ultimately, higher rates. I expect Libor to continue to rise."

Ian Gray of Largemortgage loans, a broker that specialises in providing deals from private banks, said the "honeymoon period" for cheap mortgage rates was coming to an end. He urged borrowers who are sitting on their lender's standard variable rate (SVR) to lock in to cheap deals while they still can.

Barclays Wealth, the private bank, has

indicated that it wants to increase rates, while Zurich-based EFG increased its fixed and variable deals for some customers by 0.6 percentage points last week. Handelsbanken, the Swedish bank popular with high-end brokers, upped a number of deals by 0.2 points.

Borrowers have a small window of opportunity to lock in to record low rates before this upward trend spreads to the main market. The average monthly rate for five-year fixed deals fell below 5% for the first time last week, hitting 4.89%, said Moneyfacts, the data firm.

Boulger said: "It is highly unlikely that rates will fall further, and with the ongoing crisis in the eurozone, lending criteria will become more restricted. If you are looking to fix, now is an excellent time to do so."

What are the best fixed deals?

Aaron Strutt at Trinity Financial, the broker, said borrowers should take advantage of a "price war" between building societies, which may be short lived.

Hinckley and Rugby, a small mutual, launched a competitive five-year fixed deal last week, if you have a 25% deposit. It charges 3.39% and requires a fee of £795. There is an early repayment charge if you leave before the end of the fixed period of 5% in the first year, followed by a fee that is one percentage point less in each subsequent year.

If you have a 30% deposit, the best deal is from Chelsea building society with a rate of

3.29% for five years. It has a £1,495 fee and charges 5% if you leave in the first three years, followed by 4% and 3% in years four and five. The Chelsea deal offers a larger maximum loan at £1m, while Hinckley's limit is £300,000.

Boulger said a 10-year fix from Chelsea is also worth considering. It has a rate of 3.99% and you need a 30% deposit and £1,495 fee. However, there is a hefty early repayment charge of 7% — or £14,000 on a £200,000 mortgage — for the first three years of the deal. The penalty then falls from 6% to 1% over the remaining years.

What about trackers?

Boulger said there is more value in lifetime tracker deals than those that track for a set number of years. This is because some of the best deals do not levy an early repayment charge, meaning you can switch to a fix if you wish at a later date without a fee.

ING charges 1.99 percentage points above Bank rate, so 2.49%, for the loan term. It requires a 40% deposit and a £945 fee. If you have a 25% deposit, ING charges Bank rate plus 2.3 points, so 2.8%, plus a £945 fee. Both deals offer free legal costs and valuations for those remortgaging.

What if I want the best of both worlds?

A good option is a five-year deal from Accord Mortgages, which charges Bank rate plus 1.69 points for two years, after which it is fixed at 3.39% for three years. This means you benefit from the low Bank rate now, and then lock in to a cheap fix as Bank rate starts to rise, as is predicted.

If Bank rate remains at 0.5% for the next two years — increasingly likely given the uncertainties in the market — the deal's average rate will be 2.91% over five years. A 25% deposit is required and a fee of £1,995.