

CARL FOX



Surveyor liked look of figures

PETER ROBBINS, 46, a quantity surveyor, and his wife Julie, 42, a practice manager at a GP surgery, have been offsetting their mortgage since 2004.

The couple, from Dartford, Kent, pictured with children Alex, 12, and Eloise, 14, have a £53,000 loan from the Yorkshire building society offset against £6,000 in savings. "Staff explained how it worked and it seemed like the best way to use my savings," Peter said.

Last chance to make most of mortgage offsetting

Act now before interest rates climb, warns James Charles

LENDERS including Barclays and Yorkshire building society cut the cost of offset mortgage deals by up to 0.5 percentage points last week in a last-ditch attempt to encourage borrowers to overpay before interest rates increase.

The Bank of England held rates at 0.5% last week but they are likely to start going up in the summer. While rates remain at record lows, offsetting your mortgage remains one of the most tax-efficient ways to use savings but the attractions will reduce when savings rates increase.

Instant access accounts on the high street pay a paltry average rate of 0.84%, according to Moneyfacts, the data firm. Better returns are possible only for those prepared to lock up their cash for up to five years.

However, offset loans allow borrowers to use their savings to reduce their monthly payments or clear

their mortgage more quickly. For example, repayments on a typical £200,000 interest-only mortgage at 2.49% would be £415 a month.

If the borrower offsets £50,000 savings against the loan, they would only be charged interest on the remaining £150,000. Repayments would fall to £311 a month.

Over two years, the borrower would save £2,500 in interest payments, an effective gross rate on their savings of 3.13% for basic rate taxpayers, 4.15% for higher-rate taxpayers or 5% for those paying 50%.

The borrower could opt to repay both capital and interest and use savings to cut their mortgage term. In the same scenario, they would clear their mortgage three years and two months early and save £10,112 in interest, said largemortgage-loans.com, the broker.

The most competitive

two-year deal is from First Direct, part of HSBC, at 1.79 points above Bank rate, so 2.29%, with a £999 fee for those with a 35% deposit. The best lifetime deal is from First Direct at 2.29 points above Bank rate, with a £199 fee, for those with a 35% deposit.

Yorkshire building society is one of the only lenders to offer offsets with fixed rates, charging 0.1% on top of its standard deals. It is offering a five-year offset fix at 4.29% for those with a 25% deposit.

Melanie Bien, director at broker Private Finance, said: "Interest rates are expected to start rising soon but it will still be some time before savings accounts, particularly those that offer easy access, start paying a decent rate of interest."

"In the meantime, borrowers can make their savings work harder by offsetting them against their mortgage, reducing the interest they pay. This will enable them to clear their mortgage more quickly while retaining access to savings in emergencies, such as job loss."

Ian Gray of large-

mortgageloans.com said: "The benefit of offset loans is that they are very flexible. Borrowers have instant access and the peace of mind of knowing that their cash is earning a much higher effective rate of interest than if it was held in a bog standard deposit account."

About a third of borrowers have never heard of offset, according to a report by Yorkshire building society last week. Worryingly, it found that 40% of homeowners with large savings pots — who are more likely to benefit — were not offered the deals by their broker or mortgage adviser.

However, it is not only wealthier borrowers who benefit from offset mortgages. Aaron Strutt of Trinity Financial Group, the broker, said: "Borrowers with large amounts of cash moving through their accounts, such as landlords, often use offset loans. Self-employed borrowers who have to pay an annual tax bill can use the cash to cut the interest they pay on their debt before they have to hand it to the Revenue."

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