

# Rush for cheap mortgage deals

Homeowners act as fears of interest rate rise increase. By James Charles

BORROWERS are scrambling to remortgage after economists last week brought forward their expectations for when interest rates will rise.

Borrowers have only 10 working days to bag a two-year deal from NatWest pegged at 1.49 points above Bank rate, so only 1.99% currently, before it is withdrawn. The deal, the cheapest on record for new borrowers, has a £999 arrangement fee. A lifetime tracker from HSBC with a rate of 2.19% and a £99 fee, is available online and over the phone only until midnight tonight.

These rock-bottom rates have prompted rival lenders to act, with Santander introducing a new tracker deal last Friday pegged at 1.69 points above Bank rate, so 2.19%. All these deals are available only to those with a 40% deposit or equity in their homes.

John Charcol, the mortgage broker, reported a 67% rise in remortgage inquiries last week compared with the week before, as strong economic figures raised fears that interest rates would rise sooner than expected.

The Office for National Statistics said that the UK economy grew by 0.8% in the three months to the end of September, double the pace that many commentators had expected.

A survey by Reuters has found that the

majority of economists have altered their forecasts for Bank rate in the wake of this figure, predicting it will rise to 1% by the end of next year, up from 0.75% when the same question was asked last month.

Ian Gray at largemortgage.com, the broker, said: "We are seeing tracker mortgage rates with no fees and free valuations that are below every standard variable rate. There is a view that if you are sitting on an SVR you are sitting on a time bomb. The base rate could go up as quickly as it fell."

Meanwhile, swap rates, which dictate what banks pay to borrow on the wholesale

markets, rose sharply last week. Five-year swap rates jumped to 2.2% on Friday, from 1.99% the previous week. Ray Boulger, senior technical manager at Charcol said: "Now is a good time to look at remortgaging. We aren't going to see tracker margins fall any further than best-buy deals while Bank rate is at 0.5%. It is unlikely we will see five-year fixes fall either."

ING Direct still offers the best-buy five-year fix at 3.69%, though it has a £1,995 fee, while NatWest has introduced a 3.99% five-year fix with no fee.

Brokers have reported that borrowers are increasingly seeking a hybrid deal, taking advantage of best-ever tracker rates with the security of a fix by combining the two. For example, someone borrowing £200,000 could save £4,000 over two years by spreading their loan between the NatWest fixed and tracker deals, compared with only the fixed rate.

Gray said: "The benefit of doing a hybrid is you get the best of both worlds. You can take advantage of low interest rates available now, while Bank rate rises in future will affect only half your loan."

Some lenders, including ING, HSBC and Coventry building society, will not allow brokers to arrange hybrid deals. However, many borrowers remain reluctant to pay the fees that lenders typically charge to remortgage because standard variable mortgage rates are low. About half the borrowers at Nationwide and more than a third of those with a Cheltenham & Gloucester deal are paying just 2.5%, but HSBC has a higher SVR of 3.94% while Santander charges 4.24% and Standard Life levies 5.54%.

## Best-buy tracker mortgages

NatWest 1.99%\*

Yorkshire BS 2.49%\*\*

HSBC 4.19%\*\*\*

SOURCE: Trinity Financial Group

\*Two year, 40% deposit, £999 fee. \*\*Two year, 25% deposit, £495 fee. \*\*\*Term, 10% deposit, £99 fee

## Lloyds profits from first-time buyers

LLOYDS BANKING GROUP, 40%-owned by the taxpayer, is set for a £1.5 billion pre-tax profit from its mortgage business after raising margins on deals aimed at first-time buyers. Its mortgage arms, Cheltenham & Gloucester and Halifax, made a £377m loss last year.

Analysts at JP Morgan predict that its mortgage profits will double again next year to £3 billion as Lloyds maintains wide margins on new deals. It is also benefiting from borrowers reverting from cheap tracker deals to standard

variable rates, currently 2.5% at C&G and 3.5% at Halifax.

Figures compiled by Moneyfacts, the data provider, show that Lloyds has raised margins on loans for borrowers with small deposits. The margin — the difference between the wholesale market rate and the rate charged to borrowers — have gone up from 5.14 percentage points to 5.65. This adds £1,000 a year to repayments on a £200,000 loan.

Swap rates, the money-market rates used to indicate the wholesale cost of

funding for new mortgage deals, are at 1.22%, but Lloyds charges borrowers with a 10% deposit an average interest rate of 6.87% for a two-year fix. In contrast, cash-rich borrowers with a 40% deposit are charged 4.12% on average.

Lloyds said it had to pay 2 percentage points above swap rates to borrow from wholesale markets. "A number of factors go into mortgage pricing, not least the cost of funds. Loans at 90% loan to value now cost more to fund than at 60% LTV," it said.