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Mortgage search: fee-free deals can cost more in the long run

James Charles

Homeowners have been warned to tread carefully as mortgage lenders put a premium on new “no-fee” deals and introduce more home loans with percentage fees.

Northern Rock introduced a number of new deals this week, including a two-year fixed rate of 4.09 per cent with a £995 fee, or 5.09 per cent for the fee-free option.

Cheltenham & Gloucester, owned by Lloyds Banking Group, is also guilty of introducing wide gaps between rates on its fee and no-fee deals. This week it introduced a three-year fix at 4.99 per cent with a £995 fee, or 5.69 per cent without the fee.

Aaron Strutt, of Trinity Financial Group, the mortgage broker, says: “Borrowers are put off by fees and might think that the fee-free deal is cheaper overall. However, the rate is much more expensive. If homeowners are speaking to lenders directly, it pays to ask for the full range of deals available — and do your sums before you apply.”

Percentage fees are particularly punishing for borrowers looking to take out larger loans.

Research by MoneyExpert.com, the price comparison website, has found that banks and building societies are imposing more percentage fees on new mortgages. It says that the number of mortgages charging such fees has climbed from 43 per cent of the market to 49 per cent over the past year.

The average percentage fee is now 0.89 per cent, which would cost £1,335 for someone with a £150,000 home loan. However, a borrower taking out a £500,000 mortgage would face a substantially larger fee of £4,450. A fee of 2.5 per cent — charged by some lenders — would add a hefty £12,500 to the total cost.

Brokers have also highlighted the increase in other catches in the small print of new mortgage deals, including a clause that requires borrowers to switch their current accounts.

A number of lenders, including First Direct and Halifax, demand that new customers move their main current account before approving them for a home loan, but other banks are following suit.

The Co-operative Bank introduced new tracker deals that require borrowers also to have an active current account at the bank. It is offering a three-year tracker pegged at 2.99 points above base, giving a current rate of 3.49 per cent, available up to 75 per cent loan-to-value. It has a £199 fee.

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