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Home loans down for some

Competition returns to the loans market as big lenders cut the cost of mortgages, but only for some



Elizabeth Colman

Big lenders cut the cost of mortgages last week as signs of competition returned to the loans market but long-term fixed rates and deals for buyers with small deposits remain costly.

On Monday, Woolwich cut its lifetime tracker by 0.45 points to 2.79% for buyers with a 30% deposit. The fee is £999. Northern Rock then undercut Woolwich with a lifetime tracker at the same rate and minimum deposit and a £595 fee. Buyers with a 40% deposit can get a slightly better rate of 2.74% with HSBC for a £999 fee.

The deals have no early repayment charges so borrowers can switch if rates rise.

Ray Boulger of John Charcol, the broker, said: "These lifetime trackers are the cheapest deals available, with the exception of HSBC's two-year discount at 1.99%, which is pegged to the lender's standard variable rate as opposed to Bank rate.

"We have at last started to see real competition from lenders, albeit primarily for borrowers with large deposits. However, most fixed-rate mortgages still look expensive in relation to tracker and discount rates."

The cheapest two-year fix remains that from First Direct at 3.49% for a 40% deposit (£1,298 fee). Brokers have warned against locking into short-term deals because interest rates could rise quickly. Boulger said buyers should fix for at least five years.

Last week Cheltenham & Gloucester cut its five-year fix by 0.20 points to 5.99% for buyers with only a 25% deposit (£995 fee). HSBC has a deal at 4.95% for a 40% deposit (£999 fee).

On a £200,000 repayment loan, the repayments on HSBC's five-year fix would be £1,163. That is £242 a month more than on its two-year tracker. Aaron Strutt of Trinity Financial Group, a broker, said: "There is still a high premium to pay for the security of the fix." The cheapest 10-year fix is 5.49% from Britannia building society for a 40% deposit (£599 fee). Chelsea building society will lend at 5.69% on a 25% deposit (£995 fee).

Lenders are reluctant to cut the cost of deals for small deposits. Last week Britannia lowered the amount it lends as a proportion of the house price from 90% to 85%. David Hollingworth of L&C, the broker, said: "Other lenders need to move into this area."

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