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Competition fuels mortgage cuts

Santander and Yorkshire become the latest lenders to reduce rates as RBS reveals that it is approving 90 per cent of applications.

James Charles

Homebuyers are benefitting from the return of competition in the mortgage market as Santander and Yorkshire Building Society become the latest lenders to woo borrowers with cheaper deals.

The Bank of England released figures today showing a marginal fall in the cost of the average two-year fixed-rate deal for borrowers with a 25 per cent deposit. Rates fell 0.04 per cent during December to 4.06 per cent, the lowest level since May last year. The cost of five-year deals has also fallen in the last month.

The falling cost of home loans is being driven by increased competition in the fixed-rate mortgage market during December, following a steep rise in borrowing costs earlier in the year. In the summer mortgage rates climbed rapidly to reflect a sharp rise in swap rates, the wholesale moneymarkets, which lenders partly use to fund new mortgage lending. The average two-year fixed rate was 4.47 per cent in September, according to the Bank of England.

Most major lenders cut the interest they charged on fixed-rate mortgages in December, particularly for people borrowing a higher proportion of the value of their home, such as first time buyers.

There has been a 7 per cent jump in the number mortgages available since the start of the year, according to Moneyfacts, the financial website.

Tomorrow, Santander, the Spanish bank that has taken over Abbey and Alliance & Leicester, is cutting its base-rate trackers by up to half a point and introducing a new deal for borrowers with a ten per cent deposit. It will charge 4.99 per cent for a two-year tracker worth up to 90 per cent of a properties value, with a £995 fee.

Meanwhile, Yorkshire Building Society cut its fix and tracker deals by up to 0.6 percentage points yesterday. It is offering a two-year fixed-rate deal available up to 75 per cent of a properties value with a rate of 3.79 per cent. It has a £495 fee.

Brokers have welcomed the flurry of interest rate changes as lenders battle to top the tables for the most competitive deals. Nationwide and Coventry building societies and HSBC have also unveiled competitive new rates in recent days.

Aaron Strutt, of Trinity Financial Group, the broker, said: "The recent falls in interest rates are being driven by growing competition in the market. A number of lenders now have competitive rates, a big improvement on six months ago. Many of the recent cuts reflect lenders moving to bring their interest rates back in line with most competitive players in the market."

The figures came as the chief executive of Royal Bank of Scotland, the part-nationalised bank, revealed that it is approving nine out of ten mortgage applications. Stephen Hester told the Treasury Select

Committee meeting today that "90 per cent of people who ask for a mortgage currently get one". The bank has confirmed that this is in line with approval levels in previous years.

Last year RBS confirmed that it would provide £9 billion in new home loans during 2009, a figure that it may have exceeded. Mr Hester said: "We expect to exceed our targets for mortgage lending. A lot of mortgage lenders have disappeared and we're stepping in."