It's follow that base rate as fixed home loans rise in price

PROPERTY
TRACKER MORTGAGES

By Esther Shaw

A recent rise in fixed mortgage rates is making trackers – which follow the Bank of England base rate – more popular.

The cost of fixes has begun to creep up as economic warning signs, such as higher inflation, have persuaded the money markets – where lenders borrow from each other – that a base rate rise is on its way after 11 months at 4.5 per cent.

While this has led many lenders to raise the cost of fixed-rate deals, it has left tracker loans offering relatively good value. Throw in lower arrangement fees – often half the cost of those for fixes – and greater flexibility, such as no penalty fees for switching to another lender, and their appeal is clear.

"Fixed-rate products have priced in an expected 0.5 per cent increase in interest rates, whereas mortgages that simply track the base rate can be more generously priced," says Andrew Montlake of broker Cobalt Capital.

For example, Portman building society offers a two-year fix at 4.69 per cent and a two-year discounted tracker with a current pay rate of 4.29 per cent – 0.21 percentage points below base rate. The arrangement fee for the fix is £599, but for the tracker it is £299.

"Until recently, fixed rates had been very popular but we're now seeing more people 'taking a chance' on variable rates," says David Hollingworth of broker London & Country.

Even though a rise in the base rate would of course lead to higher monthly repayments for borrowers with a tracker, it would take an increase of 0.5 percentage points to make fixed deals more competitive again, says Mark Chilton of broker Purely Mortgages.

"While there is speculation over a 0.25 percentage point rise in interest rates over the next six months, a 0.5 per cent rise is unlikely," he says. "Consumers appear educated and willing to take this risk: trackers were outselling fixed rates with us in June."

One of the main reasons for taking out a tracker is that any reduction in the base rate will be passed on to you immediately and in full, says Rob Clifford of broker Mortgageforce. This differs from many non-tracker, variable-rate mortgages, where it has often been the case that customers do not feel the full benefit of a rate reduction.

The rising cost of remortgaging is also persuading people to consider a tracker, says Melanie Bien of broker Savills Private Finance.

"Regular remortgaging [from one deal to another] is costly, as fees and charges have risen in recent years. A long-term tracker with a low rate removes the need to pay these fees – saving you money in the longer run."

"Lifetime" trackers lasting 25 years – a relatively new addition to the mortgage market – offer much greater flexibility. "Not only do you get a low initial rate but if the base rate does rise steeply, borrowers can usually switch to another deal – which may be fixed if they prefer – without notice or penalty," says Ms Bien. "This means you can stick with the tracker while rates are low and then switch to a short-term fix if the situation changes."

Making tracks: Dean Johnson and Paul Sandom took their loan with them when they moved STEVE RACE/GUZELIAN

Dean Johnson and Paul Sandom took out a lifetime tracker with the One Account on their old home in Nottingham, and have just carried this over to their new house in West Yorkshire.

They wanted a loan they could take with them from home to home without the need to remortgage every few years. After contacting broker Mortgageforce, they chose a deal – currently at 5.8 per cent – for 25 years.

"It is flexible and allows us to make overpayments – enabling us to manage our finances more easily," says Mr Johnson.