NEWS

Three-year fixes are the 'Goldilocks' option but the product cupboard is bare – analysis

by: Shekina Tuahene

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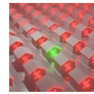

Three-year fixed mortgages could be a good product for borrowers who feel alternatives are too long or short, but a lack of options and inconsistent pricing means they are often not chosen.

Speaking to brokers about whether there had been an increased take-up in three-year fixes to appease and attract people who feel there could be a marked improvement in rates and the economy in less than five years, many pointed out that not enough lenders offered them.

Chris Sykes, technical director and senior mortgage adviser at Private Finance, said three-year fixes were a "great product" but the scarcity of products meant borrowers often ended up fixing for two or five years as a standard.

He added: "HSBC are one of the main providers that offer three-year fixes; they are quite competitive currently and for many people are a good horizon timescale. For many, two years seems a bit short, but five years is possibly too long and expensive.

"Many are going for a three-year fix with the hope things will have settled down rate-wise by then and hopefully, they can secure a more competitive offering later when compared to now."

Moneyfacts data provided to *Mortgage Solutions* showed that as of 1 April, there were 1,528 two-year fixed products and 1,680 five-year fixes on the market compared to only 407 three-year fixes.

'Awkward' pricing

Some brokers noted that the rates of three-year fixes seemed to vary across loan-to-value (LTV) tiers.

Scott Taylor-Barr, financial adviser at Carl Summers Financial Services, said the few three-year fixes on the market were "awkwardly priced" which could be confusing for clients and brokers who expected them to fall between a two and five-year fix.

Three-year fixes match their rivals

The Moneyfacts data showed that the average rate for a three-year fixed mortgage across all tiers as of 1 April was 5.07 per cent, compared to 5.35 per cent for a two-year fix and 5.05 per cent for a five-year fix.

A three-year fixed mortgage is more favourable at 95 per cent LTV, with an average rate of 5.72 per cent compared to a two-year fix which was 5.89 per cent. However, a five-year fix at the same tier is significantly lower at 5.27 per cent.

A two-year fix proved to have the highest rate at 90 per cent LTV at 5.64 per cent, compared to 5.27 for a three-year fix and 5.26 per cent for a five-year fix.

At 65 per cent LTV, a three-year fix is comparable to its two and five-year fixed counterparts, with rates of 5.32 per cent, 5.35 per cent and 5.3 per cent respectively.

A three-year fixed deal is cheaper than a two-year fix at 70 per cent LTV, with rates of 5.23 per cent and 5.65 per cent respectively. However, a five-year fix at the same tier as of 1 April was 5.4 per cent.

At 75 per cent LTV, rates stand at 5.16 per cent, 4.87 per cent and 4.91 per cent for a two, three and five-year fix respectively.

In the main then, with a couple of exceptions, three-year fixes are either cheaper or comparable with their two or five-year counterparts. However, they are still not a popular option.

Taylor-Barr said: "This is a shame, as often two years feels too short and five years too long; so having a middle-ground option can be the 'Goldilocks' solution."

Adam Smith, founder at Alfa Mortgages, said: "Few of our clients are opting for the three-year fixes as the rate is often the same as a two-year fix. Clients that are more risk averse and looking for longer-term stability are opting for five years as the fixed rate tends to come in much lower, resulting in a lower monthly repayment."

Smith said there was not a particular trend across borrower types regarding the initial terms selected, but it depended on the risk appetite of a client.

He added: "We would suggest a three-year fix where a client wants stability of repayments for a three-year period, but feels that within five years, rates will have reduced and wants to benefit from this.

"Generally, we are seeing much more interest in other mortgage terms, such as two, five, one-year or tracker terms, again it's really a case of the client's individual circumstances, view of the wider economy and risk appetite."

What borrowers are choosing

Gary Bush, financial adviser at MortgageShop.com, said: "We have no data to say that mortgage applicants are opting for a three-year rate – despite the fact that they often factor at the same percentage rate as two-year deals.

"On the whole, the two-year fixed market isn't as appealing as the five-year deals, however, the fact that you could be stuck on a high fixed rate for another three years, with a five-year, does see a push for two-year fixes."

Bush added: "The feeling seems to be that the higher-than-hoped-for rate pain will only last for two years and you can get to review it at that stage with a hopeful normal-looking inflation rate having brought more positivity to the mortgage market."

Joe Stallard, director and adviser at House and Holiday Home Mortgages, said his firm had seen an uptick in people asking about two and three-year fixed terms.

He added: "The tendency for clients to favour fixed rates seems prominent, with many wanting to do so for shorter periods in case rates fall back, whereby they can then refinance again earlier without penalty.

"Whatever else is going on right now, an individual borrower may have something to gain. But let's be clear. Every case is different, and our job as mortgage advisers is to assess the person right in front of us and make sure they get the right deal for them."

Non-fixed choices

Some brokers said it could be better to go for mortgages without fixed rate periods at all.

James Vince, managing director at Castle View Finance, said his firm's core business was investors, so many already went for two and five-year fixed interest-only products. However, he noticed a rise in people choosing non-fixed rates to "allow for breathing space for rates to settle, as well as much longer-term products".

He added: "Seven and 10-year fixed products have been popular as this has created a level of stability. As we like to say, if the case fits there is no point in continuously re-leveraging property, which erodes equity and cashflow.

"The focus on mid-term products hasn't taken off in our opinion, as this is neither here nor there, two years if you think the rates coming down or as long as possible if the client is looking for long-term stability."

Samuel Mather-Holgate, independent financial adviser at Mather and Murray Financial, said: "Fixed rates, in general, are going to be a bad buy for homeowners at the moment. With inflation set to fall, rates will follow. Opt for a two-year tracker and re-evaluate then."

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Shekina is the commercial editor at Mortgage Solutions, YourMoney.com's sister title in the B2B industry. She has over four years' experience in the B2B publishing market, with previous industries including the accounting, pet, funeral, hospitality, retail and jewellery trades. She currently reports on current events in the mortgage market and liaises with financial clients to produce sponsored content. Follow her on Twitter at @ShekinaMS

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