# The mortgage deals that aren't as good as they look

Lenders have been busy in recent weeks trying to tempt borrowers back into the market. Mouth-watering rates of less than 2% have been launched by two high street banks, HSBC and Barclays-owned, Woolwich.

But behind the headline figures are penalties and small print which mean a borrower could end up better off taking out a higher rate, or even a different type of mortgage.

**Look out for the small print**

For instance, Woolwich's 1.98% year-long tracker comes with a £999 fee, plus there is a 2% penalty if borrowers want to move within three years.* That's a whole 2% of the outstanding loan, which would add up to another £3,119.36 on the average mortgage of £155,968. (Source: Land Registry.

Meanwhile, HSBC has just trumpeted its support for first-time buyers by revealing it has set aside half a billion pounds to lend to home buyers with deposits of just 10%.

But the bank's market-leading two- year variable rate of 1.99% is only available to borrowers with a massive 40% deposit.* First-time buyers and anyone else who can only raise a 10% deposit will instead have to plump for a much less attractive 3.89% two year variable rate.

In fact, both deals are discounts linked to the bank's own standard variable rate of 3.94%.* Those who can afford a 40% deposit are given 1.95% off the standard rate while those who struggle to put together a 10% deposit are being offered only a 0.5% discount on the standard rate.

Of course, lenders set rates based on their risk and there's obviously more risk attached to lending 90% of the value of a property than 40%. But the extra interest being charged to first time buyers is phenomenal, in comparison.

And there's more! The fact that the discount is linked to HSBC's own standard mortgage rate rather than the Base Rate decided by the Bank of England, is significant. It means anyone attracted to a tracker by the belief that official interest rates are unlikely to climb in the next few months, could come unstuck if they take up HSBC's offer.

Why? Because the bank could decide to raise its own variable rate (which it is perfectly within its rights to do so) which would leave borrowers facing a higher monthly mortgage payment.

## About the Author

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*Rates correct as of 30 Sep 2009