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# Longer-term fixed rate mortgages

Understanding the difference between 'deals' and 'terms' is crucial

Are you pondering over whether to get a long-term fixed rate mortgage? The choice can be overwhelming, with lenders offering two, three, five and even ten-year deals, while others provide options that last even longer. This article will guide you through the different aspects of long-term fixed rate mortgages.

When it comes to mortgages, understanding the difference between 'deals' and 'terms' is crucial. The mortgage term refers to the loan's lifespan, indicating how long it will take to pay off the entire mortgage. Traditionally, a 25-year mortgage was standard for first-time buyers. However, due to rising house prices, many are now opting for a 30-year term or longer.

## What's the implication of a longer mortgage term?

A longer mortgage term allows for more spread-out mortgage repayments, making them more affordable monthly. However, this means you'll be making interest repayments for a longer duration, which could make the total loan more expensive.

It's essential not to confuse a fixed-rate deal with a mortgage term. Unlike having a fixed percentage rate throughout the mortgage's lifespan, the amount you pay varies over your mortgage's life. Most people choose a fixed rate deal for two, five or even ten years, ensuring the interest paid each month remains constant for that period. Many homeowners switch to a new fixed rate deal when their current one ends to avoid their lender's costly default tariff, known as a standard variable rate.

## Can you take a new fixed rate deal frequently?

Even with a 30-year mortgage term, homeowners have the flexibility to take out a new fixed rate deal every few years. Some lenders offer fixed rates for more than ten years, although this is rare and comes with certain downsides.

If you're undecided about the length of your mortgage deal, consider these questions: Do you think rates will be higher or lower than they currently are in two, five and ten years' time? It's crucial to remember that predicting future mortgage rates is impossible. However, interest rates are unusually high at present due to the Bank of England's efforts to curb inflation.

## The light at the end of the tunnel

There may be hope on the horizon. The Bank of England anticipates that inflation will decline by the end of 2023 and into 2024, which may cause the base interest rate to fall, potentially causing mortgage rates to decrease.

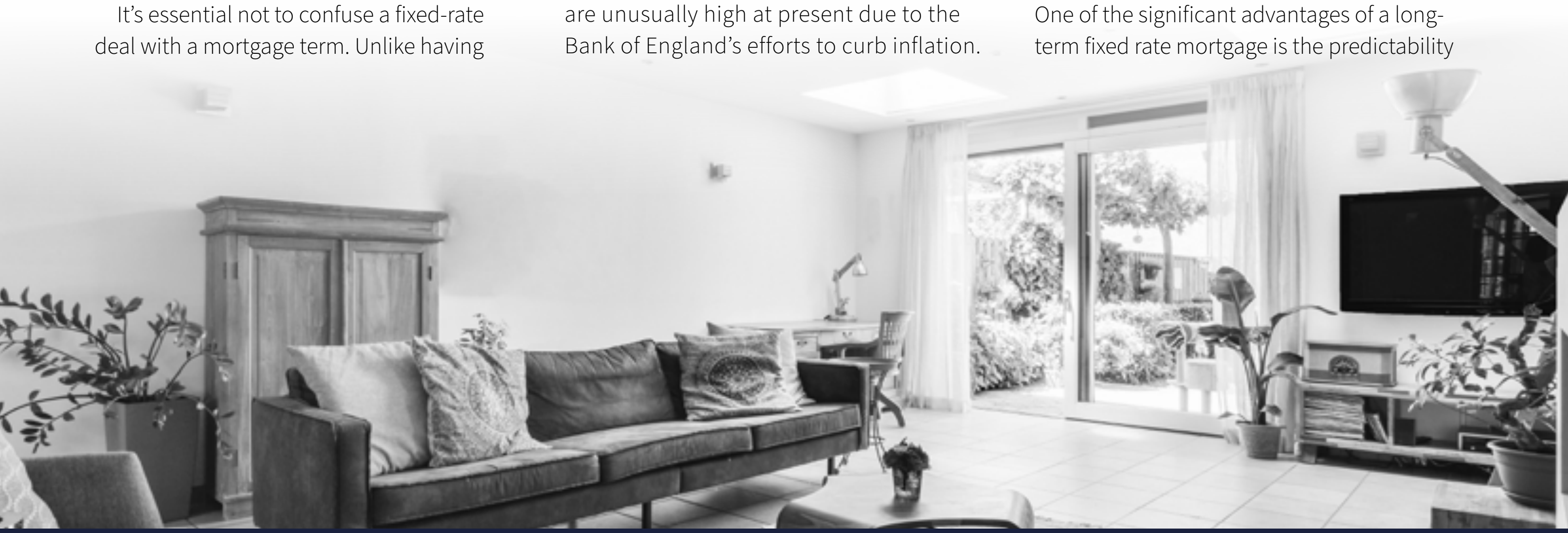
Long-term fixed rate mortgages are typically only available to those with large deposits, making them less useful for first-time buyers who can often only afford a 10% deposit. If you were to lock into a high rate and stick with that mortgage for the entire term, you could miss out on cheaper interest rates as you build up more equity in your home.

## The advantages and disadvantages of long-term fixed rate mortgages

Though the economy's future remains unpredictable, locking in a long-term mortgage deal can offer benefits and disadvantages. Understanding these can help you make an informed decision.

## The upside: Predictability and protection

One of the significant advantages of a long-term fixed rate mortgage is the predictability



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it offers. Your monthly repayments remain the same throughout the deal, freeing you from worrying about fluctuations in the broader mortgage market. You're cushioning yourself against interest rate hikes.

Suppose you secure a five-year deal and interest rates rise during this period. In that case, switching to a new deal may mean paying a higher rate than your current one. However, if interest rates fall before your deal ends, you might pay more than newer deals.

## Time-saving and financial benefits

Those on short-term deals often find themselves shopping around for a new mortgage every few years, which can be time-consuming. Each switch requires extensive research, consultations with brokers, and submitting numerous documents like proof of earnings and bank statements.

Opting for a product transfer with your existing lender, i.e. switching to a new deal they offer, could save you both time and money. This process typically involves fewer fees and less paperwork. Moreover, a long-term mortgage deal could save you money on lender fees.

## The downside: Potential for overpayment and restrictions

Conversely, securing a long-term mortgage deal when rates are high could mean overpaying for years if rates decrease. Those who opt for a shorter two-year deal can switch to a lower interest rate if rates drop during their term.

The Bank of England predicts a decrease in interest rates in the coming years. If this comes true, those who lock into a lengthy deal now might regret their decision later. However, predicting future mortgage rates with certainty is impossible.

Another potential disadvantage is the age limits some banks impose on their long-term mortgages to avoid the risk of people repaying loans in retirement. Many banks have a maximum age limit of around 70 for borrowers.

## The risk of exit fees

Some long-term fixed rate mortgages come with hefty exit penalties if you decide to switch before the term ends. This is something to bear in mind when considering a long-term fixed rate mortgage. ■

**Need more information about your options?**

Making decisions about mortgages can be complex. If you require further information or have specific questions about your circumstances, we're here to provide the guidance you need to make the best decision for your financial future, for further information, please get in touch with us.