Borrowers Go Long Term To Avoid Crunch

Consumers looking to secure mortgage deals are showing a preference for long-term deals, according to online mortgage advisory service mform.

July 31, 2008 (FPRC) -- Research from the group has found that more than 45 per cent of all searches made by visitors to the site were for mortgages with loan terms of five years or more. The firm explained that in the days before the credit crunch, the number of people opting for such arrangements was far lower. Instead, most consumers opted for two to three-year deals which afforded them the flexibility to take advantage of lower headline rates with different providers.

Analysis conducted by mform has shown that currently, long-term deals offer rates of just under six per cent on average, compared with 5.49 per cent for the best two-year deals and 5.79 for the most competitive three-year loan. However, many consumers were interested in securing deals for even longer than a half decade. While 13.5 per cent of searches in the past three months recorded on the site were for mortgage deals longer than five years, 11.5 per cent of people wanted to tie themselves into a contract for the entire duration of their mortgage.

Commenting on the figures, Francis Ghiloni, marketing and business development director at the site, said mortgage loans availability had been a serious issue for many consumers in recent months. He explained that the market had seen some turbulence, with products withdrawn at short notice and headline rates fluctuating considerably.

\'Given the continuing uncertainty we can understand why it makes sense for borrowers to lock in to longer-term deals so that they can plan their future and have a degree of stability and security. They’re opting to take a deal and then sit out the mortgage merry-go-round until it settles down,\' he said.

Meanwhile, commenting on the popularity of variable rates seen recently, he continued: \'The focus for borrowers should still be on the true cost of their loan taking into account all fees as well as the monthly payments. The mortgage market will settle down eventually and interest rates may fall so there will be a cost for security.\'

Further research from the group showed that 39 per cent of consumers were opting for fixed-rate deals, even though two and three-year arrangements of this type were becoming increasingly uncompetitive. Meanwhile, eight per cent have been looking for standard variable rate mortgage loan arrangements in the last three months, compared to 21 per cent who were searching for discount variable rate deals. For five per cent, capped products were the preferred option.

However, with the mortgage market shrinking, more than a quarter (26.8 per cent) searched all mortgage types to try and find a suitable arrangement.

For those who are looking to advance on the property ladder, taking out a loan may prove an effective way to raise the capital for a deposit quickly. However, consumers may be advised to opt for this type of loansooner rather than later after MoneyFacts explained that the secured loans market is shrinking rapidly as credit conditions worsen.

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