

Mortgages: long-term fixed rates?

A new European initiative could radically change the way UK homeowners take out mortgages.

- 1 With a partner, discuss the pros and cons of (a) buying a house and (b) renting accommodation.
- 2 Make collocations containing the word 'mortgage' by writing the following words before or after it.

large	broker	long-term	arrange	low-interest
costs	rates	take out	cash in	lender
fixed-rate	payments	small	pay off	adviser

- 3 Now read the article. Underline the collocations in question 2 that appear in the article.

Stability or flexibility?

A group of leading European banks, including Credit Agricole of France and Spain's BBVA (Banco Bilbao Vizcaya Argentaria), have proposed to set up a new institution called the European Mortgage Finance Agency (EMFA). The scheme would allow banks to borrow money at a lower interest rate than they could individually. This in turn would mean that homebuyers could take out a loan with a guaranteed fixed rate of interest for 25 or even 30 years. It is hoped that the European Commission will back the idea.

The new proposal is modelled on the American Federal National Mortgage Association (known as "Fannie Mae"), which can offer home loans at less than the market rate. US homebuyers enjoy the stability afforded by long-term, fixed-rate mortgages. UK homebuyers, on the other hand, often see their mortgage payments fluctuate, depending on the interest rates for lending. This is why the UK property market has always been volatile, although at the moment property prices are rising. The average price

of a house in the UK is now 13% (£20,000) higher than this time last year. The whole of Europe is currently seeing the cheapest mortgage rates of the past fifty years. However, consumers continue to ignore the threat of higher interest rates despite the fact that some housing economists are urging people to "borrow with caution" as they may well face higher mortgage costs next year.

While most of Europe has enjoyed longer repayment terms for many years, some experts are asking whether long-term, fixed-rate mortgages are necessarily desirable. They have been criticised for their lack of flexibility, for instance when people wish to cash in a mortgage early, which frequently happens in the UK when people trade up to a larger house, or move city for work reasons. Ultimately, the introduction of fixed-rate mortgages to the UK market may extend choice for homebuyers but will not make the decision easier. 'Borrowers want to get the best of both worlds,' a UK mortgage adviser complained. '...a guarantee that their mortgage payments won't rise, as well as the chance to change to a better financial deal if one arises.'

- 4 Find words or expressions in the article meaning:

- a certain that something will happen or will exist (paragraph 1)
- b change frequently (e.g. by rising and falling) (paragraph 2)
- c a situation like this can suddenly change or become more dangerous (paragraph 2)
- d a situation or activity that could cause harm or danger (paragraph 2)
- e to sell something in order to buy something of the same kind that is more expensive (paragraph 3)

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- 5 Discuss the following questions in small groups and report your ideas to the class.

- a What do you think about the proposal to set up the EMFA?
- b Would you prefer a long-term, fixed-interest mortgage, or a short-term, flexible mortgage?
- c How would you describe the housing market in your country? Are prices rising or falling?
- d What do you think will happen in the housing market next year?