

Guide

Should You Choose a 2-Year or 5-Year Fixed-Rate Mortgage?

By See It Here First



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Introduction

If you're considering taking out a mortgage or nearing the end of your current fixed-rate deal, you'll no doubt have noticed plenty of conversation about mortgage rates.

Choosing between a 2-year or 5-year fixed rate mortgage is one of the key decisions.

Here, we'll explain the differences and help you decide what might work best for your situation

What's a Fixed-Rate Mortgage?

A fixed-rate mortgage locks in your interest rate for a set period of time. This means your monthly payments stay the same no matter what happens with wider economic factors, like the Bank of England's Base Rate. A 2-year deal fixes the rate for 2 years, while a 5-year deal does so for 5 years.

Recently, more people are leaning towards 5-year fixed deals because they're cheaper than shorter-term options, which is a shift from how things used to be!

Why Are 5-Year Fixed Rates Cheaper Right Now?

Starting in late 2022, 5-year fixed mortgages became cheaper than 2-year ones. The reason? Lenders expect interest rates to fall in the future, and they factor this into their pricing. This means monthly payments on 5-year deals are currently lower than those on 2-year mortgages.

2-Year Fixed-Rate Mortgages

Pros

Short-term commitment (just 2 years)

You can switch to a better deal sooner if rates drop

Cons

Currently more expensive than 5-year deals (by about 0.5%)

Higher monthly payments



5-Year Fixed-Rate Mortgages

Pros

- Stability for 5 years—your payments won't change
- Lower interest rates right now, meaning cheaper monthly payments

Cons

- Locked in for 5 years—if rates drop, you miss out unless you remortgage and pay penalties

For example, with a 5-year deal being 0.5% cheaper, you'd save around £27 per month for every £100,000 of your mortgage balance.

What's Best for You?

The choice depends on your situation.

- Go for 2 years if you expect rates to drop soon and want flexibility.
- Choose 5 years if you want lower payments and more long-term stability.

Need more tailored advice? You can always chat with a mortgage broker to figure out what works best for you.

You can speak to our mortgage adviser below on a date and time to suit you.

Book a Call

Another Option— Tracker Mortgages

If you're open to something different, consider a tracker mortgage. These follow the Bank of England's Base Rate, so your monthly payments go up or down alongside it.

Pros

If rates fall, your payments drop too

Cons

If rates rise, your payments will increase

On average, a 1% change in the Base Rate impacts your payment by about £54 for every £100,000 of mortgage balance.

Final message from the team

When deciding between a 2-year or 5-year fixed-rate mortgage, the key difference is the duration your interest rate is locked in. Historically, 2-year deals offered lower rates, but since late 2022, 5-year fixed mortgages have become more affordable due to market predictions of a gradual decline in the Bank of England's Base Rate. A 2-year deal provides short-term stability and flexibility, especially if rates drop soon, but comes with higher monthly repayments compared to current 5-year rates. Meanwhile, 5-year fixed mortgages offer longer-term stability and lower monthly repayments but lock you in for a longer period, meaning you'll miss out on rate drops unless you pay for early remortgaging. Ultimately, the right choice depends on your financial goals and preference for stability versus flexibility. Consulting a mortgage broker can help you make the best decision. Alternatively, tracker mortgages could be worth exploring for those willing to accept fluctuating payments based on Base Rate changes.

Please note: See It Here First is not authorised to give financial advice; the information and opinions provided in these articles are not intended to be financial advice and should not be relied upon when making financial decisions. Please seek advice from a specialist mortgage provider.

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