RESOLVE FINANCIAL SOLUTIONS

OUR GUIDE TO MORTGAGE INTEREST RATES

OCTOBER 2022

Our guide explains how interest rates work and what rising interest rates mean for your mortgage and how you can protect yourself from increased costs.

PLEASE NOTE: The last Bank of England update was September 2022. The Bank Rate is 2.25%. The last change to the Bank Rate was in September 2022, when the Bank of England increased the rate from 1.75% to 2.25%.

WHAT IS HAPPENING WITH INTEREST RATES IN 2022?

It is the role of the Bank of England to set interest rates in the UK – known as the Bank Rate or sometimes the base rate. It's one of the tools used to try to control inflation and the UK economy.

If there is movement in the Bank Rate then this will impact on the interest we earn on our savings and it will also affect the rate at which we can borrow money on mortgages.

The Bank of England base rate has been low for more than a decade, things are starting to change.

Interest rates have been low since 2009 when they were reduced to just 0.5% in reaction to the fallout of the financial crisis. They have stayed low and reached a record low of 0.1% between March 2020 and December 2021, mainly to help the economy during the coronavirus pandemic.

Recently, due to inflation increasing, the Bank of England has started to increase the Bank Rate to stop this from happening. The latest Bank Rate increase was September 2022.

WHAT'S LIKELY TO HAPPEN TO INTEREST RATES IN FUTURE?

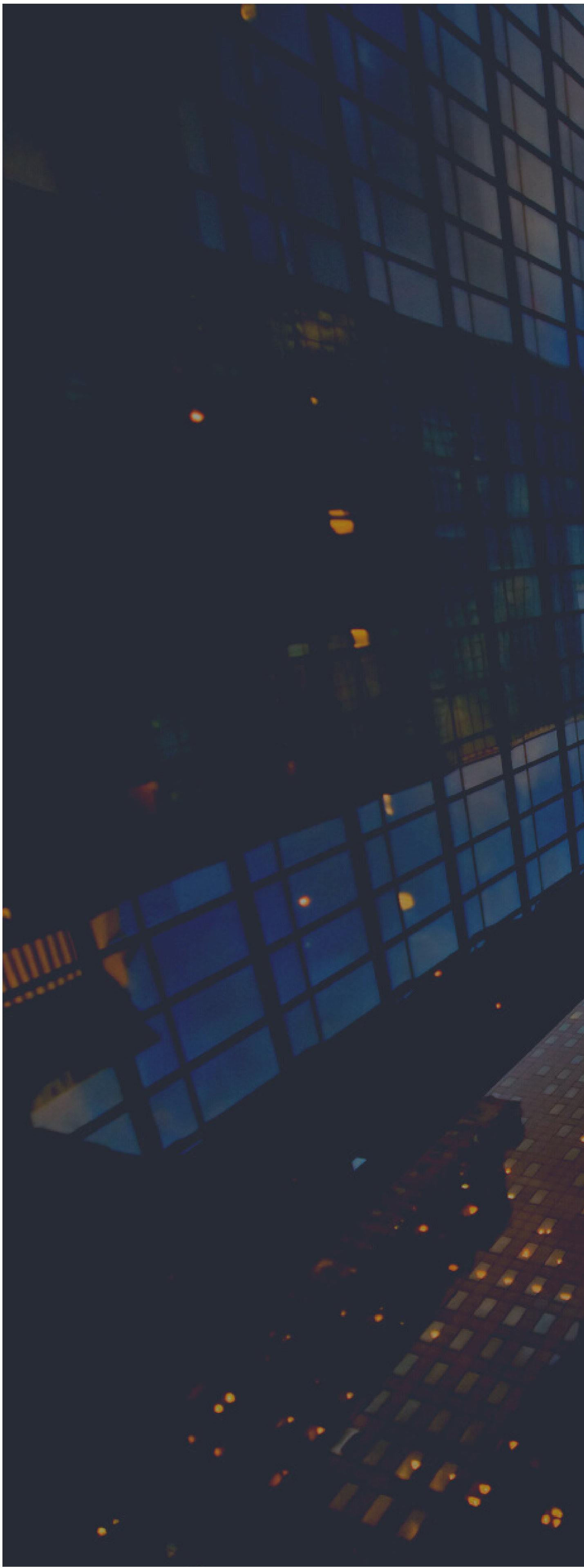
Some property experts forecast that the base rate could hit 6% in 2023, prompting concerns that many homeowners could default on their mortgages as they try to deal with higher monthly repayments and the rise in cost-of-living.

If you think you are one of these people and you may default on your mortgage then please get in touch with us or your lender who may be able to arrange a payment holiday or switch you to an interest-only mortgage or extend your term to make your payments more manageable.

WHAT IS AN INTEREST RATE?

The interest rate set by the Bank of England (Bank Rate) is what other banks and building societies use to set their own lending (and savings) rates for customers. Interest is applied on products such as mortgages and loans - and this is sometimes referred to as the cost of borrowing.

The way mortgage interest works on your home loan will depend on the type of mortgage deal you have - for example a fixed rate or variable rate.



WHAT IS THE BANK OF ENGLAND BANK RATE?

The Bank of England Bank Rate is controlled by the Monetary Policy Committee (MPC) – an independent group of economists working within the Bank of England.

It is their job to look at how the economy is performing and the level of inflation. They then make a decision on the base rate each month. This decision will dictate the level of interest set by other banks and building societies in the UK and will impact the amount of interest you pay on your mortgage or loans.

If the Bank of England decides to put up the Bank Rate, the aim is to get banks and lenders to also increase the rates they charge to borrowers and businesses – including the interest rate they charge on mortgages.

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WHY ARE INTEREST RATES RISING?

The government has recently increased the rates in order to stop the soaring rate of inflation which is being driven by the high price of energy. This has doubled since May 2022, due to supply constraints caused by the war in Ukraine.

In more normal circumstances, a government's usual motive for hiking rates is usually to ensure consumers getting a better return on money they have saved. This in turn should encourage them to save, as opposed to spend. It should also encourage them to borrow less because loans (including mortgages) and credit are more expensive. This should also help to slow the rise in the cost of everyday goods.

HOW DO INTEREST RATES AFFECT MORTGAGES?

If interest rates rise, mortgages will become more expensive.

Lenders will typically pass on the increase in the Bank Rate to their customers in the form of higher monthly mortgage payments.

This will cost you more over the term of your mortgage.

If you are about to buy a home or remortgage, you might want to think about opting for a fixed-rate deal to lock into a lower rate for the next few years and protect yourself from rising rates.

WHAT WILL HAPPEN TO MORTGAGE PAYMENTS IN 2022?

If you are on a fixed rate mortgage deal you won't see any change in your rate or monthly payments until your deal ends. This is because you've agreed your rate for a set period of time. But once this fixed-rate finishes, you could find new fixed rate deal rates are much higher than when you last fixed.

If you're on a tracker mortgage linked to the Bank Rate, your repayments will rise with any increase to the Bank of England rate – and so it's possible your rate and payments will increase even further this year.

As a borrower, you need to be aware that even a small increase in the Bank Rate can translate into a significant increase in your monthly mortgage costs.

As a guide, if the Bank of England puts interest rates up by 0.5%, that would add £56 a month to a 25-year £200,000 mortgage for those on a tracker mortgage deal. Over a year, this would add up to £672.

HOW CAN I PROTECT MYSELF FROM RISING INTEREST RATES?

If you're on a variable rate mortgage, the best way to protect yourself from rising rates is by moving to a fixed rate. This is a good option as you can lock yourself into a lower rate for two, three or even five years.

Typically, the best fixed-rate deals are quickly withdrawn by lenders if there is the hint of an interest rate rise – so you need to act fast. But always tread carefully before making any move to check what fees might apply. Speaking with a mortgage broker, will help you source the best deal available for your needs.

While you shouldn't face early redemption penalties for leaving a standard variable rate mortgage, there could be an arrangement fee when moving to a new fixed rate deal. Remember to factor in expenses such as valuation and conveyancing fees.

If you are currently on a fixed rate it pays to be prepared. If you've got less than six months to run, you can secure a new mortgage deal in advance. We would advise not to wait for your deal to expire.

When choosing a new fixed rate mortgage, you might want to consider a longer-term fix of five – or even 10 years. But beware of fixing for longer than you are comfortable with. It's hard to predict what life will look like a decade from now – and there might be early exit penalties if you want to move house or restructure your loan within the fixed rate term.

WHERE CAN I GET THE BEST INTEREST RATE FOR MY MORTGAGE?

The answer really depends on your individual financial circumstances and the mortgage rates available at the time – and the Bank of England Bank Rate will have a big impact on this.

It is important to research carefully – shopping around to compare mortgages – both on rates and fees – to find the best product for your needs. We would be able to help you do this and save you time as we have access to many offers available on the market.

HOW CAN I KEEP MY MORTGAGE COSTS DOWN?

There are several steps you can take to keep your mortgage costs as low and affordable as possible.

If you're a first-time buyer, one of the best things to do is save up as much towards your cash deposit as possible. This will mean you need to borrow less on a mortgage and you'll have a lower loan-to-value (LTV). With a lower LTV, you'll be able to access more competitive interest rates.

If you're Remortgaging (switching to a new mortgage deal) and now have a lower LTV than previously, this should also mean you can access better rates than before.

HOW CAN I KEEP MY MORTGAGE COSTS DOWN? (CONT'D)

If you're worried about rising interest rates and you're on a variable rate it could make sense to switch to a fixed rate. This can give you peace of mind that your monthly repayments won't keep going up even when the Bank Rate rises.

If you are currently on a fixed-rate deal, you may be able to save by switching to another fixed rate, depending on what rate you're paying now. But don't rush into any decision before researching if you'll face early repayment fees on your current deal.

GET IN TOUCH

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If you're seriously concerned about your mortgage costs, please get in touch and we will be able to give you the best advice for your circumstances.

resolve
financial solutions

PLEASE NOTE: Your home maybe repossessed if you do not keep up repayments on your mortgage.