UK mortgage lenders begin to raise rates

Act sooner rather than later and consider your options

MORTGAGE RATES have been very low by historical standards in recent times and that is partly why there has been such high demand for homes during the pandemic. The government's independent forecaster, the Office for Budget Responsibility, announced that if inflation rises by more than 5%, then a higher bank rate and more expensive mortgages, particularly in 2023, are more likely.

The base rate which is set by the Bank of England (BoE) is important to homeowners because it acts as a benchmark for the cost of borrowing money. One of the biggest

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concerns around a rise in inflation is the potential impact on the cost of mortgages.

FIXED RATE MORTGAGE DEALS

Higher energy, fuel, transport and food costs make a rise in the cost of borrowing more likely. The question now seems to be not if the Bank will raise rates, but when.

The lower the base rate, the lower the interest rates. If the base rate goes up, so inevitably will mortgage interest rates. We are already starting to see some signs that fixed rate mortgage deals are increasing, and although competition should help to maintain lower rates, it looks as though the reductions in fixed deals enjoyed previously could be coming to an end and even beginning to reverse.

Rate rises will almost certainly affect homeowners paying a standard variable rate (SVR) or discounted deal linked to an SVR, as lenders will adjust this independent borrowing rate too.

CORRELATED TO INTEREST RATES

If you currently have a tracker rate mortgage you could see an immediate change to your monthly payments, as your rate is directly correlated to interest rates. If you're on a tracker or variable mortgage, you should start to shop around to see if you can find a cheaper option with a fixed mortgage, although you might have to pay an early redemption fee first.

If you are currently planning to apply for a mortgage it makes sense to act sooner rather than later and obtain professional mortgage advice, as some mortgage lenders may allow the current low rates to be locked in at an early stage in the mortgage application process.

TIME TO REVIEW YOUR SITUATION

If you are part-way through a fixed rate deal you won't be affected by an interest rate rise until the offer ends, when your rate will revert onto your lender's respective SVR, unless you remortgage. Also, if your current mortgage deal is coming to an end within the next six months, now could be a good time to review your situation to consider your options. Some lenders will allow you to apply for current deals several months before your mortgage expires.

While increases in interest rates are clearly not good news for borrowers, neither are they a cause for immediate panic. ◆

>> NOW IS THE TIME TO REVIEW YOUR MORTGAGE <<

Any increase in rates could have an impact on your monthly mortgage payments, although it depends on what sort of mortgage you have. To discuss how we can help you, contact **Capital Mortgage UK Ltd** – telephone **0131 241 1601** – email **Info@capitalmortgageuk.co.uk**.