

Short Term Pain for Long Term Gain?

By Kerry Chaloner, Property Finance Consultant

The Banking sector has rarely been out of the news in the last nine months or so, hitting the headlines again this month with stark warnings of interest rate rises ahead. So where is this news coming from and what might the impact be for you?

There are three types of interest rates that operate within our economy; LIBOR rate (the rate at which banks lend funds to each other), the Bank of England base rate and the individual lenders standard variable rates and mortgage rates.

Of course we all know that the Bank of England base rate is still at an historic all time low, however, the LIBOR rate has been steadily moving upwards in recent weeks. This means that the 'cost of funds' to individual banks is rising and the knock on effect is that the banks are beginning to reflect this through the rates offered on their mortgage products to the public. Also, the banks have an interest in maintaining their own profit margins, probably more so now than ever before, and are likely to continue with the current gap between Bank of England base rate and their own mortgage rates.

In years gone by the attraction of having a fixed rate mortgage was that it would have been fixed at a rate very close to the Bank of England's base rate. For example, a fixed rate of 4.99% when base rate was 4.75% was considered a good deal. In today's market a fixed rate may be obtained for two years at something like 3.99% but base rate is at 0.5%. It is widely acknowledged that base rate will not be reduced any further and this means that, in due course, the only way is up.

In line with future rises in the Bank of England base rate, mortgage lenders are likely to maintain their current margin levels.

Timing is everything in the current climate and although a lot of mortgage holders are currently enjoying a very low interest rate on their borrowings it will almost certainly not continue over the medium to long

term and inevitably some people will leave it too late and get caught up in rising interest rates.

To avoid this happening to you it is vital that your own borrowings are reviewed in light of your personal circumstances and if necessary, protected from future rises now.

For further information on how Armstrong Watson can help you, call freephone 0800 195 2161 or email moneymatters@armstrongwatson.co.uk