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INSIGHTS

Mortgage holder considerations given the recent Bank of England base rate hike

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Ian Raymond, Head of Mortgage Sales

With over-dramatised stories of panicked mortgage holders queuing out of the door to get their variable rate mortgages fixed, the Bank of England’s 0.25% base rate hike appears to have many home owners spooked. Adopting a little perspective however, and the road ahead appears much smoother than what the view from the pavement offers.

Think Relatively

Relative to post recession conditions, yes, perhaps the 1.5x increase (from 0.5% to 0.75%) may seem drastic, but cast one’s eyes over a more meaningful timeline, perhaps in the context of the 17% of the early 80s, the 15% of the early 90s, or even the 5-6% pre-recession conditions, then the current hike in base rate pales into insignificance. Furthermore, in comparison to other developed nations – 2% in USA, 1.5% in Australia, 4.35% in China, 1.5% in Canada or 6.5% in South Africa* – providing that international investors aren’t overly leveraged, then the UK’s new base rate shouldn’t be too troublesome.

So why the panic? There really shouldn’t be any, especially when considering that the additional 0.25% only equates to an extra £12 a month for a £100,000 repayment mortgage. What’s more, to highlight recent comments made by Mark Carney, Governor of the Bank of England, when he stated that he expects only a “gradual pace” and “limited extent” of tightening, with the general City rumour mill expecting the future average baseline to hover between 2-3%. That said, entertaining ‘Murphy’s Law’ (‘Anything that can go wrong will go wrong’) through modelling a worse-case scenario can sometimes be useful when financially planning for the future. The Bank of England, for example, has used such a lens to stress test the UK banking system based on the potential shock of a no-deal Brexit (which, incidentally, Mark Carney has suggested is unlikely but still has an “uncomfortably high” risk of materialising). In such a scenario, interest rates were modelled to rise to 4% and, relative to recent history and the UK’s peers, the parameters set by this worse-case scenario should not be overly daunting for UK mortgage holders.

**rates all true at the time of writing on the 23 August 2018.*

How does this impact on your day to day finances?

Behaviourally speaking however, panic could be permeating the market because the typical UK mortgage holder may have become overly familiarised with the low interest rate and might now fear, consciously or not, a potential new status quo of less disposable income. In such instances, simple self-control through a little ‘mental accounting’ (the concept that individuals classify and treat money differently depending on the sources of the

funds, rather than 'all money being equal') could help. To illustrate, a mortgage holder might opt to continue on the lesser, variable rate, yet earmark the saved difference between their variable rate and a market-standard fixed rate in order to provide for either a 'rainy-day buffer' or a perceived future windfall depending on how the Bank of England adjusts the interest rate over the next few years.

Moreover, with regards to wanting to reduce risk through a move from a variable to a fixed rate, it is important for mortgage holders to appreciate the cost of the transaction and factor this into their overall cost and yield considerations. Whether more inclined to increase risk through looking towards a variable rate, reduce risk through a fixed rate, or simply sit tight, our recommendation would be to seek guidance from a trusted advisor before rushing to any decision.

There are a multitude of different products available in the market today and so it is worth knowing what options are best suited to your needs or that may provide you with market advantage. An expert mortgage solution will be one that is tailored to work for you.

Biography
Ian Raymond is a mortgage expert with over 13 years experience in local and international markets. He is responsible for the mortgage sales at Standard Chartered in Jersey and works on behalf of Bank clients based in Asia, Africa and Middle East who require mortgage solutions for residential investment property in London.

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