Advertisement
monzo BUSINESS
Monzo Business Bank Account
Apply now
Only sole traders or limited company directors in the UK can apply. Ts&Cs apply.

The Observer
Mortgages

# How to survive UK mortgage turmoil as rates go up and deals are pulled

Homebuyers have to try to navigate their way to an affordable deal with no help in the budget to ease the pain

Shane Hickey

Mon 11 Mar 2024 09.00 GMT

Share

First-time buyers and homeowners were offered little comfort by Jeremy Hunt's budget last week. Photograph: Yui Mok/PA

The average mortgage rate that UK homeowners are paying is set to rise steadily over the next three years, and peak at 4.2% in 2027, according to an official prediction last week.

The Office for Budget Responsibility (OBR), the Treasury's tax and spending watchdog, says this is significantly higher than the 2% figure just over two years ago.

It is the latest frustrating news for homeowners, and would-be first-time buyers, following chancellor Jeremy Hunt's budget, which offered no relief for most - there was not a single mention of the word "mortgage" in either his speech or the main budget document.

The OBR forecast coincided with a string of lenders, including Barclays and HSBC, increasing rates on many new products or pulling deals.

Advertisement
monzo BUSINESS
Monzo Business Bank Account
Apply now
Only sole traders or limited company directors in the UK can apply. Ts&Cs apply.

They are the latest increases as lenders say they are responding to increases in money market swap rates, which largely determine the pricing of new fixed-rate deals.

David Hollingworth of L&C Mortgages says the vast majority of homeowners have got a fixed-rate deal in recent years but should be prepared. "The OBR forecast … continues to highlight that borrowers need to prepare for rates remaining higher than the lows of recent years," he says.

So what should homeowners expect, and what can they can do?

## Seek advice

The end of 2021 marked a low in rates on existing home loans, averaging 2%, according to the OBR. Since then, inflation has spiralled following Russia's invasion of Ukraine, as have mortgage rates.

The average existing rate now stands at just above 3%, says the watchdog.

Rates on many new fixes are now far higher, however. Figures on Thursday from financial data provider Moneyfacts, showed 6,000 or so residential mortgage products available, with the average new two-year fix at 5.78%, and five-year at 5.34%.

At the start of this year, banks and building societies were engaged in a mortgage price war which saw many of them repeatedly cut the cost of fixed-rates - easing a little the pain for the army of existing borrowers with cheap deals that are expiring.

However, the last few weeks have seen some of these cuts reversed.

Rachel Springall at Moneyfacts says lenders have been reacting to volatile swap rates. "As we have seen this week, some deals can be withdrawn and replaced entirely, so seeking advice is wise to keep on top of the changing market," she says.

Advertisement
monzo BUSINESS
Monzo Business Bank Account
Apply now
Only sole traders or limited company directors in the UK can apply. Ts&Cs apply.

Most viewed

Biggest Tory donor said looking at Diane Abbott makes you 'want to hate all black women'

'Felt like an earthquake': passengers recall moment of terror on Latam flight as investigation launched

Oscars 2024: Al Pacino says he was told not to name best picture nominees

Labour calls on Sunak to return Frank Hester's £10m Tory donation

Accused: The Hampstead Paedophile Hoax review - absolutely chilling

Advertisement
monzo BUSINESS

## Look at the long term

Homeowners approaching the end of their current fixed-rate will therefore be wondering what to do.

Locking in now will provide stability but risks the borrower missing out on a future better rate.

Mortgage brokers have been quick to highlight the value of locking in for five years where, many argue, there are more competitive rates compared to shorter term deals.

Among the most competitive lenders at the time of writing was First Direct, which was offering 4.67% fixed for two years, and 4.29% fixed for five years (in both cases the maximum loan is 60% of the value).

Ranald Mitchell, at Charwin Private Clients, a Norwich-based mortgage adviser, said that five-year deals had been cheaper than shorter terms for some time. “At the premium end (75% loan-to-value), two-year fixes are floating around the 4.5% to 4.75% mark. In contrast, five-year fixes are currently priced around 4.1% to 4.5%.”

Simon Bridgland of Release Freedom, a Kent-based adviser, says that people securing a two-year fix now will be paying over the odds in the long term. “Three- to five-year products are my go-to at present.”

Virgin Money offers a “Fix and Switch” mortgage which may appeal to some. This five-year fix allows people to switch after two years without being hit with an early repayment charge.

At the time of writing, Fix and Switch rates included 5.24% for someone looking to borrow 85% of their property’s value, or 5.64% at 95% of value.

## Or bet on a tracker

Base-rate tracker mortgages have been gathering attention amid the fluctuations in the market. What you pay is pegged to the base rate - when it goes up, your repayments increase, and vice versa. On Thursday, the average new two-year tracker rate was 6.15%, according to Moneyfacts.

Graham Cox, at broker firm SEMH, says trackers are more expensive than fixes now as lenders anticipate the main Bank of England rate will fall by the summer. “Unless the base rate falls further and faster than expected, they’re probably not the best bet right now,” he says.

Meanwhile, Gary Bush at MortgageShop.com says trackers should only be considered if there are no charges for switching. “This would allow you to hedge and fix later if the mood music goes in the right direction. It’s tricky for consumers, and financial advice firms are best equipped to help homeowners and first-time buyers navigate through this awful market,” he says.

Salcombe in Devon, which has a very high concentration of holiday lets. Photograph: Gavin Hellier/Getty

## Will holiday let owners sell up?

It will become clear over the next year or so whether government changes to the tax system for holiday lets will bring more houses on to the market for renters and buyers.

In his budget, Jeremy Hunt announced the abolition of the furnished holiday lettings (FHL) tax regime.

This allows owners of these properties to deduct the cost of mortgage interest payments from rental income. It applies to properties available for letting for at least 210 days a year.

Thinktank TaxWatch says that the owner of a property bringing in £30,000 in rent can pay £4,000 a year less in income tax through the FHL regime, compared to an ordinary longer-term let.

The Treasury says the abolition of the tax advantages from April 2025 will “level the playing field” between short and long-term lets and should result in more people being able to live in their local area.

Sarah Hollowell at investment firm Killik & Co says it could also result in owners selling up. “These developments mean that many FHL landlords could either just stop letting their properties and keep them as second homes, or sell up and move the proceeds into another form of investment.”



Monzo Business Bank Account
Apply now
Only sole traders or limited company directors in the UK can apply. Ts&Cs apply.
Advertisement
monzo BUSINESS
Monzo Business Bank Account
Apply now
Only sole traders or limited company directors in the UK can apply. Ts&Cs apply.
Advertisement
monzo BUSINESS
Navigate waves of admin and automatically save for tax season
Apply now
Only sole traders or limited company directors in the UK can apply. Ts&Cs apply. Tax Pots are available with Monzo Business Pro for £5 a month, with your first month free.
Create Tax Pot
Automatically save for tax
Percent to set aside 20%

Monzo Business Bank Account
Apply now
Only sole traders or limited company directors in the UK can apply. T&Cs apply.