Banks pull cheapest mortgage deals off market as interest rates set to rise

B
anks are pulling their cheapest mortgage deals off the market as interest rates rise, sending the cost of home loans sharply upwards.

The City now expects the Bank of England to raise rates from historic lows of 0.1% either next month or the month after, with base rates expected to hit 1% by August.

Analysis for the Evening Standard shows that would increase the annual cost of the nation's mortgages by a total of £14 billion, money sucked out of the economy in the midst of a likely slowdown caused by Covid and supply chain crises.

While two-thirds of the UK's £1.6 trillion of mortgages are on fixed rates, meaning those borrowers won't immediately be affected, those on variable deals or trackers will be hit straight away.

Laura Suter, head of personal finance at AJ Bell, said: "Mortgages rates have been at rock-bottom lows for a long time and many homeowners have never known an environment of higher interest rates, so any rise will be a nasty shock for them. And be warned, mortgage providers don't hang around when it comes to passing on rate rises, so anyone on a tracker deal will see their costs go up immediately. If 0.5 percentage points is added to mortgage interest it adds about £50 a month to the cost of a £200,000, 25-year mortgage, or around £120 a month extra to a £450,000, 25-year mortgage."

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At the weekend Bank of England governor Andrew Bailey dropped the heaviest hint yet that interest rates will have to rise to counter inflation. Behind closed doors, banks are moving quickly.

Barclays has already adjusted some fixed rate deals. Nationwide Building Society confirmed it is "reviewing" its mortgage pricing. Lloyds, the owner of Halifax and the UK's biggest mortgage lender, has also made some fixed rate deals more expensive.

It announced those moves to mortgage brokers but did not put out a more formal announcement.

The City is pricing in rate rises as now inevitable. But brokers note that the lenders are moving well ahead of an actual decision on rates from the Bank of England.

Mark Harris, chief executive of mortgage broker SPF Private Clients, said: "Underlying Swap rates have risen sharply in the past couple of weeks with five-year Swaps now over 1 per cent. This cost will have to be passed on to the borrower and we expect to see five-year fixed rates rise accordingly. Indeed, Barclays is increasing its five-year fix at 75 per cent LTV from today from 1.21% to 1.31%. Barclays is also raising its two-year fix at 60 per cent LTV from 0.86 to 0.91 per cent."

Elliot Nathan of top mortgage broker John Charcol said: “Banks are going to start increasing their fixed rates once we see Bank of England put up the base rate coupled with the rising rate of inflation. Once we start to see the first-rate rise, the banks will follow suit and we may not see interest rates as low as these again. For any borrowers on a variable rate, now is the time to secure a fixed rate to ensure the cost of your mortgage does not increase over the next few years”.

Assuming a mortgage of £250,000 over 25 years, a jump in rates to 1% would cost an extra £100 a month.

There are £1.6 trillion in outstanding home loans across 13.3 million mortgage accounts, making the average mortgage about £120,000. In London, that figure is plainly much higher.

British households will be £1,000 worse off next year from a cost of living squeeze created by rising energy prices and shortages of workers according to one study.

The Resolution Foundation said higher inflation would hit workers’ earnings next year, contributing to a hit to the average household income.

Barclays said: “We constantly review our product offering and make changes – where necessary – to ensure we continue to deliver a high level of service to mortgage brokers and their clients. As a result of a recent review, some products across our Residential and Buy to Let ranges have seen price changes.”

Top City bank analyst Ian Gordon of Investec said: “Mortgage rates will absolutely rise from here. The energy crisis will add to inflationary pressures and exacerbate the squeeze of household disposable incomes, this simply increases the upside pressure on mortgage rates, adding to the household pain.”