Interest rates raised to 1% by Bank of England – the highest rate in 13 years

T
he cost of living squeeze tightened for thousands of London home owners on Thursday as the Bank of England raised its benchmark interest rate to one per cent.

The 0.25 per cent increase – described as a "bitter blow" for London homeowners – was an unprecedented fourth rise on the trot from the Bank's rate setting Monetary Policy Committee (MPC).

The committee voted by a majority of 6 votes to 3 to raise rates by 0.25 per cent. The three dissenting MPC members wanted a bigger 0.50 per cent rise.

The Bank's interest rate is now at its highest since March 2009 when the recession that followed the global financial crisis sent the cost of borrowing tumbling to emergency lows to keep the global economy afloat.

The move came after America's Federal Reserve lifted its key rate by 0.5 per cent on Wednesday in its biggest rise in 22 years.

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The Bank said Thursday’s hike was needed to reign in rampant inflation, which hit seven per cent in March and is now expected to have reach nine per cent in April when the cap on energy bills rose 54 per cent, and peak at 10 per cent in the Autumn.

But it will mean a major extra burden for homeowners and businesses at a time when they are already grappling with surging energy, fuel and food prices.

The Bank also sharply downgraded its forecasts for economic growth with a contraction of 0.25 per cent now expected in 2023 as a result of the disruption caused by the Ukraine war.

Bank of England Governor Andrew Bailey said household disposable income is expected to fall 1.75 per cent this year.

He added: “I recognise the hardship this will cause for many people in the UK, particularly those on lowest incomes.”

He also warned that of further interest rate rises saying “some degree of further tightening of monetary policy might still be appropriate in the coming months.”

The Bank of England move will trigger an immediate rise in housing costs for the roughly one in four home owning households with tracker, discount or variable rate mortgages that move in line with the Bank of England’s base rate.

For a homeowner with a typical London 25 year mortgage of £250,000 it wil lift the monthly bill by around £35 from £1,353 to £1388. For a borrower with a larger £500,000 mortgage the monthly repayments will rise by about £70 from £2,706 to £2,776.

For the majority of mortgage holders on fixed rates the decision – which was widely expected by City forecasters – will make no immediate difference.

However, as their current deals come to an end they will have to remortage at rates far above those they fixed at on their existing deals, especially if they are on two year trackers.

Fixed rates hit all time lows last summer and autumn when the Bank of England's base rate stood at just 0.1 per cent. It started rising in December when it went up to 0.25 per cent. There were further quarter point hikes at the Febraury and March meetings of the MPC.

At their lowest point fixed mortgage rates were well below one per cent.

On Wednesday, the best rates available to borrowers with a 25 per cent deposit looking to fix for two years was the 2.29 per cent from First Direct. Borrowers with only a 10 per cent deposit can lock in at 2.49 per cent with the same lender.

Borrowers looking for peace of mind over five years can fix at 2.3 per cent with Barclays if they have a 25 per cent deposit or 2.64 per cent with First Direct if they have just 10 per cent up front.

Paul Johnson, director of the Institute For Fiscal Studies, warned earlier of the impact on people's mortgages of the series of interest rates hike by the Bank of England

He told BBC Radio 4's today programme: "That could be doubling your mortgage interest payments over a period of time, so even small changes now, at least down the line once people certain fixed rates run through, could have really big effects on people who have got significant mortgages."

‘Homeowners on the brink cannot be ignored’

Liberal Democrat MP Sarah Olney said Londoners would be “unfairly hit” by the latest rise because an “out of control housing market” in the capital that forced home owners to take out far larger mortgages than elsewhere in the UK.

A poll commissioned by the Liberal Democrats found that 54 per cent of homeowners said the Government was not doing enough for them to afford mortgage costs.

The Liberal Democrats are calling for a new Emergency Mortgage Support Fund to support homeowners on the brink.

Ms Olney, who is the MP for Richmond Park and Liberal Democrat Business spokesperson said: “It is families who have scrimped and saved to get on the housing ladder I worry about the most when rates rise. They need help now but all they get from this Government is endless tax hikes and empty promises.

“I am calling on the Chancellor to slash taxes and introduce a safety net for families who can’t afford the mortgage rise. Homeowners on the brink cannot be ignored any longer by this Government.”

Cory Askew, head of sales at agents Chestertons, says: “Despite the previous interest rate rises this year, the number of buyers registering has only increased, most recently up 39 per cent in April versus April 2021. With yet another rise, and the Bank of England indicating a target Base Rate of 1.5 per cent by the middle of next year, the rate rises have only served to increase buyer motivation to secure their purchases quickly.”

David Johnson, managing director of independent property consultants INHOUS, says: ‘In the mainstream housing market, there is no doubt that the latest in this series of interest rate hikes is going to impact homeowners. Many of the people we speak to feel that a recession is inevitable.

“In London, the interest rate hikes will impact those buyers who purchased in the past five or six years and paid a premium to do so. Between the £2 million to £8m price bracket, the market was very competitive, with the majority of buyers needing finance and paying strong prices to secure their homes.

“We could see these homeowners struggle at a later stage if there are several more interest rate hikes, but this won’t happen imminently. It also depends on what finance they took out; if they opted for a medium or longer-term fixed-rate mortgage, they may be ok but if they opted for a variable rate, it could be a nervous period for them.”