How the Bank of England's interest rate rise will impact your mortgage

The bank base rate has been raised again in a bid to tackle inflation, but it is adding significant costs to borrowers' bills in the process.

The Bank of England revealed a 0.75 percentage point hike to 3% for its core interest rate at midday as major central banks double down on the price pressures facing Western economies at the expense of economic growth.

Some of the inflationary pressures ahead can be attributed to the mini-budget announced by the Truss government in September, which hit the value of the pound and made imports more expensive.

[Cost of living latest]

What was the Bank's main message today?

Inflation is too high and people are being hit hard but the rate is expected to fall sharply from the middle of 2023.

If no action is taken by raising rates things will get worse.

What are the consequences of raising the Bank rate?

The action against inflation means that borrowing becomes more expensive.

For example, floating mortgage holders on rates tied to the Bank rate face higher monthly payments.

The average increase will be £73.49 a month for tracker mortgages and £46.22 a month for standard variable rate (SVR) mortgages, according to the banking and finance industry representative body UK Finance.

Financial information company Moneyfacts estimates a rise of 0.75% on a current SVR of 5.86% would add approximately £2,223 to total repayments over two years (based on a £200,000 mortgage over a 25-year term).

Should I fix or wait it out?

Mortgage holders have recently been cautioned against fixing their rates by experts, who warn there is little peace of mind for many as interest rate uncertainty persists and exacerbates the wider cost of living crisis.

Those seeking new fixed rate deals still face paying more than 6% currently for two and five-year deals as a result of the spike that followed the mini-budget market turmoil when fixed rate deals shot up in cost.

Several lenders even pulled offers until conditions calmed.

But current holders of a fixed rate deal will feel no pain until their deal expires.

The costs of new deals are, inevitably, reflecting rises in the Bank rate alongside the market jitters.

MPs on the Treasury Select Committee accused the industry on Wednesday of being slow to pass on the easing in financial conditions witnessed since the growth plan was largely ditched.

What do experts advise?

Moneyfacts finance expert Rachel Springall said it is imperative that both those looking to buy a property or refinance their existing home seek independent advice from a broker to navigate the options available to them.

She cautioned against locking into a fixed rate mortgage now even though it may be attractive for those who want peace of mind with their repayments.

“Whether now is the time to take out a new deal really will depend on someone’s circumstances, particularly for first-time buyers who may be struggling to build a deposit and who have limited disposable income,” she said.

Why is the Bank raising my borrowing costs?

It sounds almost perverse given the financial pain being inflicted on families but the Bank is acting to control the pace of price growth.

The Bank cannot control things like soaring energy costs but it can act to help slow inflation by, for example, making pleas for wage restraint.

The main consumer prices index (CPI) measure of inflation currently stands at 10.1%.

The Bank now predicts CPI will remain over 10% in the first quarter of 2023 as energy prices continue to climb across Europe, largely because of Russian curbs on gas exports to the continent, but this is down from an earlier forecast of 12.5%.

What can I do if I’m struggling to repay?

Talk to your mortgage provider.

The advice is to contact your lender as soon as possible to discuss options.

“Lenders stand ready to help customers who might be struggling with their mortgage payments, with a range of tailored support available,” a UK Finance spokesperson said.

What about business and personal loans?

It is clear that banks are generally demanding an improved rate of return, but much depends on the financial circumstances of the customer as levels of risk will be different.

If borrowers are paying more, why are savings rates failing to keep up?

The old adage goes that lenders are quick to punish but slow to pass on any benefits.

Given the pace of inflation, savings remains well and truly eroded.

The majority of the biggest high street banks have not passed on the Bank rate rises to easy access savings accounts, Ms Springall said.