CAMPBELL & McCONNACHIE

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Should you fix your mortgage?

How Brexit may affect mortgages and interest.

With each passing day, more news and speculation emerges about the future relationship between the UK and the EU, as we move a step closer to the planned Brexit date at 11pm on 29 March 2019.

Despite this, much remains uncertain about what that relationship will look like and how it will affect important parts of people's lives – including the cost of housing.

For some homeowners who are currently on variable-rate or tracker mortgages, the sense of stability that comes with a fixed rate may seem appealing during these turbulent times.

This could also be a cost-effective option if interest rates rise in the aftermath of leaving the EU, particularly in the event of a no-deal.

Plus, with the number of fixed-rate mortgages recently reaching a 12-year high according to data provider Moneyfacts, there's a wide range of options to choose from, and the potential to find a competitive deal.

As with many other questions surrounding Brexit, though, nothing can be said for certain about its impact on interest rates until we know more about the nature of the withdrawal.

In February 2019, the Bank of England's Monetary Policy committee voted unanimously to hold interest rates at 0.75%, indicating the current feeling of caution around these decisions.

Whatever the political outcome, make sure to research your options in detail and speak to us before making any decisions about your mortgage.

How does interest affect your mortgage?

One way to look at the question of fixing your mortgage is to assess how an interest rate change could affect your costs. This will depend on the type of mortgage you have.

If you have a **variable-rate mortgage**, the rate you pay will rise and fall depending on interest rates.

Tracker mortgages are the most directly affected, as they're based on the Bank of England base rate plus a set percentage below or above it.

Standard variable rates, meanwhile, are set by the lender – but these will often roughly follow changes to the base rate.

Switching to a **fixed-rate mortgage** means your mortgage repayments remain the same for a fixed period of time, and are based on the interest rate at the time you take out the product.

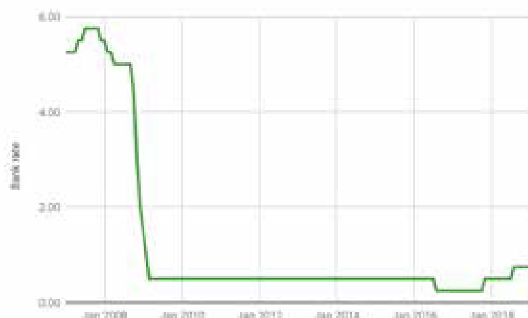
This means they won't be affected by interest rate changes during the period you've agreed to.

At a time when interest rates are expected to increase, it's often worth thinking about switching to a fixed-rate mortgage to avoid the rising costs. But how likely is it that rates might rise?

Changes to interest rates so far

Since the financial crisis in 2008, interest rates have been at an historic low.

In the past few years, however, they've shown some signs of recovery, rising from 0.25% to 0.5% in November 2017, then up to their current level of 0.75% in August 2018.



Source: Bank of England

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While that is a crumb of comfort for savers after years of poor returns, it is a blow to homeowners with variable-rate or tracker mortgages to pay.

As small as these increases seem, those with variable-rate mortgages will already have seen an increase to their costs, adding up to hundreds of pounds extra each year.

For example, the last increase from 0.5% to 0.75% would have meant someone with a £150,000 tracker mortgage could have seen their payments increase by around £270 or more a year.

Meanwhile, someone with £250,000 to pay on their mortgage would have paid roughly £450 more a year, although both of these estimates would vary from mortgage to mortgage.

With faster pay growth over recent years beginning to put upward pressure on prices, the Bank of England has said it is likely to raise interest rates further in the coming years as long as the economy performs as it expects.

It has kept a cautious approach, however, saying any future interest rate rises should be "gradual and limited", and will remain substantially lower than pre-crisis levels.

According to the most recent forecasts, interest rates should increase gradually to around 1.1% by 2022.

Interest rates after Brexit

Of course, the unknown factor in all of this is also the elephant in the room – Brexit.

The Bank's current interest rate forecasts are based on the assumption there will be a "smooth Brexit", and that households and businesses will have time to adjust to it. If this is not how the EU withdrawal turns out in reality, different decisions could be made.

The outcome of Brexit negotiations will have an effect on various economic factors, including spending, companies' ability to supply goods and services, and the value of the pound.

For example, if the value of the pound falls and inflation rises, interest rates may be raised more than previously planned, to strengthen the pound.

On the other hand, it's possible that interest rates may be cut to support the UK economy if necessary, in a similar measure to the one taken after the EU referendum result in June 2016.

However, Mark Carney, Governor of the Bank of England, has been keen to dispel the assumption this will happen again.

In multiple statements, he has said whatever happens with Brexit, monetary policy response "will not be automatic and could be in either direction".

Other considerations

Aside from post-Brexit predictions and speculation over interest rates, there are some other factors to keep in mind if you're thinking about remortgaging.

For one thing, your own plans for the coming years should play a part in your decision.

If you might want to move house or pay off your mortgage early, it's often better to stick with your current mortgage than move to a variable one, as there are often arrangement fees of up to £5,000 to pay if you change your mortgage. These could easily outweigh the gain you would make by paying less interest.

Another way to look at the decision is by working out how important it is that you have a sense of certainty about your mortgage repayments.

If you're able to manage some variation in what you pay from month to month, adjusting for the changes caused by a variable-rate mortgage might not be a problem. If your budget doesn't allow for this fluctuation, a fixed rate may be more suitable.

On a personal level, you should think about how much you value the peace of mind that comes with that stability and the follow-on rate – the standard variable rate that your mortgage will revert to at the end of the fixed-rate term unless you negotiate a new deal at that time.

Timing is also important. If another rate rise begins to look likely, it's possible that homeowners will rush to remortgage at the same time, which could affect competition among providers.

Even so, it's important not to panic and jump to any decisions about your mortgage without consulting a professional and considering all of your options first.

Speak to us about changing your mortgage.

Important information

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to future change.

This document is solely for information purposes and nothing in it is intended to constitute advice or a recommendation.

You should not make any mortgage decisions based on its content, while your home may be repossessed if you do not keep up repayments on your mortgage.

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