News

10.03.2022

< Back

Rate fluctuations aren't new, but the situation underlines the need for advice

In our marketplace, rate changes are nothing new. Mortgage product rates change every single day and that is a big part of why our sector is so dynamic and why we are able to offer a considerable amount of choice to our clients.

However, it's fair to say that benchmark rates – notably Bank Base Rates (BBR) and swap rates – have in recent history tended a) not to move much at all, or b) when they have been moved, to have gone down.

For savers that has presented its own problems in terms of returns, but a low-interest rate environment over the last decade has undoubtedly helped borrowers. However, there is an argument to suggest that we have come to expect rates to always be 'historically low' and, of course, that was never going to be the case; indeed it was never really desirable either.

Not yet quite back to 'normal'

To show signs of an economy returning to a more 'normal' level, we need interest rates to be at levels which can work for those who put their money away, and those who borrow that money. So, in a way, the recent upticks in BBR and swap rates while not likely to be all that well-received, could be seen as an economy being more robust.

But, and this is a significant caveat, we are very much not in 'normal' times currently. After two years of Covid and dealing with the economic ramifications of a pandemic, we now have serious global security issues to contend with, and while those rate concerns pale into insignificance when compared to what is happening elsewhere, it may still be a source of worry for many.

Now, for the vast majority of mortgage borrowers who will be on fixed-rates, this will not be an immediate concern – or at least shouldn't be. However, there's clearly a role for advisers to play here because if the direction of travel does remain upwards then – specifically for those borrowers on variable/ tracker/ discount rates – there will be increased costs to contend with.

Necessary measures to keep inflation in hand

At our recent Growth Forum meeting, there was almost unanimous agreement that BBR, for example, was likely to be inched up perhaps a number of times throughout the course of this year, as the MPC seeks to keep inflation in hand.

Whether that assessment holds firm now, given the situation in Ukraine, remains to be seen. I suspect that we might see a more circumspect approach being taken by the MPC over the course of the coming months – the 'nailed-on' increase in BBR many were anticipating in March might not be the case anymore.

Clearly, given what swap rates have been doing recently, it was always likely that those lenders dependent on the wholesale markets for their funding would have to move their rates upwards in order to match those costs of funds. It's been a little under the radar – perhaps because of the specialist nature of those lenders and the mortgages they offer – but in recent weeks again the increases will have been visible to advisers.

Lenders still want to lend

Now, of course, rate rises – as mentioned – are never likely to be welcomed with open arms by advisers and their clients, but we must still hang our hats on that 'historically low' peg because that is still the case. Plus lenders want to lend, there is plenty of competition, and average rates while going up are not anywhere near what borrowers were paying 15 or so years ago.

What we are however starting to see is lenders tweaking their affordability measures in light of those cost of living increases – and let's be fair, given what is happening right now, we can all expect those to keep going up particularly for fuel and energy bills – which is going to impact on borrowers, particularly I would suggest those at the start of their home-owning journey who will need to get over higher bars to secure a loan.

It could be a tight situation for first-time buyers in that regard, but again let's reiterate the positives remain in terms of product availability, pricing, and a willingness to lend. That hasn't changed for some time, and lender targets are not moving either, so we are likely to see periods of flux but also periods when lenders go all out to secure business.

Overall, it's understandable that the short-term future looks uncertain. I think we all feel that way about many aspects of life at present but advisers are truly in the best place to provide that certainty and confidence, particularly to those who won't have seen anything like this before in their home-owning lives.

Jo Carrasco is Business Partnerships Director at Stonebridge

First published by Financial Reporter

Get in touch to find out more >

Policies

Modern Slavery Statement

Cookie Policy

Privacy Policy

GDPR Privacy Statement

Quick Links

Contact Us

News

Careers

Not all products and services mentioned are regulated by the Financial Conduct Authority. The guidance and information contained within this website is subject to the UK regulatory regime and is therefore primarily targeted at customers in the UK.

Stonebridge is a trading style of Stonebridge Mortgage Solutions Limited, which is authorised and regulated by the Financial Conduct Authority. Registered Office: Stonebridge Mortgage Solutions Limited, 9 Lords Court, Basildon, Essex, SS13 1SS. Registered in England and Wales. Registered Number 5601592.

Web design by Stonebridge, web development by Frogspark.