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Interest rates: your burning mortgage questions answered

With rising interest rates, it's understandable to feel concerned about your mortgage. **Magdelena Harding**, Specialist Financial Adviser at Wesleyan Financial Services, discusses how the landscape may develop over the next 12 months.

Interest rates have continually risen throughout 2022. Do we know if they will continue to rise in 2023?
Magdelena Harding (MH): Even the best economic brains can't predict exactly what will happen, but the prevailing view seems to be that the Bank of England Base Rate – which banks use to calculate their own interest rates – will keep rising in 2023.

Markets currently expect the Bank of England to set rates at slightly less than 5% in 2023, before falling back a bit in 2024 – possibly to around 3.5% to 4%. But this should be taken with a pinch of salt. Opinions vary and, as we've all seen, events like a change of government can have unforeseen implications. In my opinion, this could be the new norm. The historically low rates we've seen over the last 10–15 years aren't, even though it feels that way because they've been around for so long.

In turn, high interest rates may cause a settling-down period when it comes to property prices. The cost to borrow money is significantly more now, and people's income will only stretch so far. The Office for Budget and Responsibility has projected a fall of 9% between 2022 and 2024, but again, this is speculation and we've seen how economic and world events can upset the applecart when it comes to these predictions.

Should I choose a fixed rate or tracker mortgage?
MH: What is right for you will really depend on your individual circumstances. Let's say that today's tracker rate means your monthly mortgage payment will be £1,000 per month, but two months later, it rises to £1,700 per month. Will this be catastrophic to your finances? If the answer is yes, a fixed-rate mortgage that provides stability of payment may be the better option. This is usually the case for those whose salary is unlikely to increase over the next five years or so. On the other hand, if your income is likely to rise over the next two to five years, you may be able to absorb that increase in payment without too much of an impact on your finances. This is why it's so important to seek advice when it comes to mortgages. A good adviser will explore your options in detail, ascertain your attitude to risk and work with you to find the best solution for your needs.

Given the recent rise in interest rates, is it worth paying my early repayment charge so that I can remortgage sooner?
MH: Again, the answer to this question will depend on your individual circumstances. There will be cases where it's cost-effective to pay an early repayment charge, and cases where it's absolutely not.

If you're considering paying your early repayment charge, it's worth getting advice from a financial adviser. They will find out the cost of the charge, add it to your loan, see the new rate, and provide you with a projected monthly cost. If the stability of payment is really important to you, this might be the best option.

What happens if the property I am buying is valued at a lower price than the amount I offered?
MH: There are a couple of options for buyers when this happens. Firstly, the lender will work out the new loan-to-value of the property based on the valuation. For example, if the property price is £500,000, but the valuation comes in at £450,000, your lender will only lend up to the loan-to-value of £450,000. This is where your estate agent becomes really important, as you will probably have to renegotiate the property price with the seller. It's worth noting that most surveyors don't work directly for the lender. They're usually employed by panel companies. The lender then instructs the surveyor to carry out the valuation for them.

This is why it isn't usually in the best interest of the seller to stand by their original price in the hope that another surveyor will value the property differently because it's likely to be the same person carrying out the valuation in that postcode area.

If the seller is unwilling to reduce the asking price, but you still want to purchase the property, the other option is to cover the difference using any additional savings you have. If you have enough surplus cash to pay the extra cost, you can absolutely do that.

What happens if my mortgage offer expires before I complete my property purchase?
MH: If your offer expires before your property purchase is finalised, it's likely that you will have to reapply for your mortgage – be that with the same lender or a different lender with a more favourable rate of interest.

Your lender will need to reassess your affordability, meaning they will ask for your latest payslips and bank statements to make sure nothing has changed since you last applied. Depending on your financial situation, this may sadly mean that you're no longer able to proceed with the purchase. Some lenders will allow you to extend your offer for a further three months at the rate you applied for, but this isn't guaranteed and should be taken on a case-by-case basis.

Remember, your mortgage is secured on your home. Your home may be repossessed if you do not keep up repayments.

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