

Mortgage lending still growing despite interest rate rises

It appears that rising interest rates have had little impact on the UK housing market as the Association of British Bankers have revealed that mortgage lending in July 2007 increased by £13.6 billion. The figure is almost exactly in line with the preceding six-month average of £13.7 billion and represents a slight increase on the June rise of £13.1 billion.

The July increase is not what the organisation expected with BBA statistics director David Dooks admitting that the rise was 'surprising' following the cumulative affect of the recent interest rate rises. He added: "Steady growth in lending on UK mortgages in spite of five interest rate rises highlights the popularity of home ownership", but Dooks also pointed out that much of the total advanced figure could be down to re-mortgaging activity as homeowners seal fixed rate deals to minimise the impact of the interest rate rises.

Those five rises over the last year have led many homeowners currently on due-to-expire fixed rate deals to frantically compare mortgages currently available in the market in an effort to find one that will alleviate the rate increases. Homeowners with a mortgage of £100,000 currently on fixed rate deals obtained two years ago could face a monthly increase in the region of £200 per month if they were to move to the variable standard rate; so the need to find a discounted or fixed rate remortgage is proving fairly critical for many families. That immediate need is what most experts believe are driving the current mortgage boom.

The Council of Mortgage Lending (CML) recently announced that total gross mortgage lending reached a new record for the month of July amounting to £34.4 billion, reflecting the trend highlighted in the BBA figures. The CML readily admit that they attribute market buoyancy to the remortgage effect and don't expect autumn figures to be so high. Despite that, the CML are still predicting a record £360billion of mortgage lending for the year ended 2007. That will be due in part at least to the fact that more and more fixed-rate [mortgages](#) are due to revert to standard variable rate in the coming months.

However, the Royal Institute of Surveyors (RICS) has pointed out that the recent volatility in world markets, including the collapse of the sub-prime market in the USA, will lead to more expensive fixed rate deals, and that will impact on household finances. Chief economist for the organisation Simon Rubinsohn warned: "With 90% of borrowers currently opting for fixed rate deals, those who already find themselves financially stretched will be paying an even higher price for their peace of mind."

So, even though mortgage lending is still at record levels it is primarily because of homeowners seeking new fixed rate remortgage deals. It appears that the interest rate rises designed to slow the economy are having the desired effect, even if it taking time to work its way through the system.

About the Author

Elisha Burberry is an online, freelance journalist and keen movie-goer from Scotland. Her interests include travelling, cooking and photography.

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