Fixed-rate mortgage time-bomb

The New Year promises to be considerably more expensive for an estimated 12,000 homeowners as the fixed-rate period of their mortgage expires and reverts to Standard Variable Rate (SVR), according to data released by online UK mortgage company John Charcoal.

The difference that mortgage holders need to find each month will come as quite a shock to most; a typical £150,000, 25-year repayment mortgage with a fixed-rate of 4.39% switching to SVR of 7.75% will see payments rise from £824 per month to at least £1,132, an increase of £308 per month. That equates to needing to a rise in income of approximately £5,000 per year just to maintain the mortgage repayments. Add in council tax rises and other costs of living and the picture looks dire for those who haven't switched to a new fixed rate deal.

And even if those whose deals are about to end can manage to find a new deal, they will find that today's fixed rate mortgage is at least full 2% higher than when they first took out their mortgage. Lenders have been re-pricing their deals ever since interest rates started rising and the key to getting a lower rate may be to pay a higher arrangement fee.

Katie Tucker, product specialist at Charcoal believes that policy is best. "What is vital," she says, "is that borrowers remortgage to an affordable monthly repayment. The lower rates have higher fees, but giving up some of your accrued equity to give yourself peace of mind knowing that you'll be able to afford your mortgage into the foreseeable future is surely a price worth paying.

"If you are thinking of going for a discount rate or tracker mortgage because you are gambling on interest rates falling over the next couple of years, ask yourself if you will be able to pay an increased amount if interest rates go the other way, and rise." adds Tucker.

If you are one of the 12,000 mortgage holders looking to remortgage before Christmas you need to do your maths to work out which is the best deal for you, not just today but into the near future. An independent financial advisor could give you an impartial view on the merits of applicable products as well as help you out with the maths.

But as UK mortgages become more expensive it is perhaps inevitable that some people will get into difficulties attempting to repay their mortgage. However, careful planning and extensive shopping around to compare mortgages long before the current deal expires may give mortgage holders more chance of getting a reasonable new deal, and avoid the shock of the new rates.

About the Author

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