

Rate rise impact revealed

Ryan Bembridge - October 25, 2017



People with a variable rate mortgage of £500,000 will have to stump up £643 more per year every time the Bank of England raises interest rates by 0.25%, analysis from largemortgageloans.com has found.

The burden is lesser for those with smaller loans, as those with a £100,000 mortgage will only have to pay £129 more per year.

The Bank is expected to raise interest rates from its record low of 0.25% in the coming months, with the next announcements from Monetary Policy Committee meetings taking place on November 3 and December 15.

Paul Welch, chief executive of broker largemortgageloans.com, said: "It's incorrect to think that people with larger mortgage loans are the super-rich who can easily service increased mortgage payments.

"There are thousands of borrowers in this category for whom a rise in interest rates will have a significant effect."

Rising interest rates will have a bigger impact on those with interest-only mortgages.

People with a £500,000 mortgage will have to pay £1,250 more per year, while even those with a £100,000 mortgage will have to stump up an extra £250.

Two in five (43%) mortgaged homeowners are on variable rates and will therefore be directly affected by a rate rise.

Between 1992 and 2006 interest rates were typically at 5.5% but in the last 10 years they have averaged at just 1.27%, which Welch said has led to unrealistic asset values and an overvalued market.

He added: "We're now seeing this start to correct itself in the most overvalued areas, namely London, but there still needs to be more correction.

"I believe this will happen over the next decade as interest rates normalise and asset bubbles created by the artificially low interest rates correct themselves."