

Residential Landlords Association Newsletter



13 November 2008

Interest rates cut benefits those with tracker mortgages

So, what does the 1.5% cut in base rate mean for those with mortgages?

Undoubtedly, the real winners are those with tracker mortgages, which follow the movements of the Bank of England's base rate.

This immediately translated into large monthly savings for borrowers who have benefited from an overall cut in interest rates from 5% to 3% in the last few months. Recent borrowers with tracker mortgages in particular are reaping the rewards.

However, the bad news is that on Wednesday, the day before the 1.5% interest rate cut – taking us back to 3% – Woolwich, Lloyds TSB and Northern Rock all removed their tracker mortgages, while Abbey pre-empted what it thought would be a half-point cut in interest rates by increasing its margin on tracker mortgages by 0.5% on Tuesday.

Furthermore, according to the Financial Times, brokers say they expect all lenders to raise tracker mortgage rates to avoid being inundated with applications from homeowners looking to benefit from further interest rate falls.

However, for those who got their tracker mortgages in good time, the savings are extraordinary and the luckiest (though no doubt they'd say the savviest) are the buy-to-let brigade who are now benefiting from good rental demand as well as lower borrowing costs. They are literally quids in.

For example, landlord buyers at Young Group's myBASE1 development in Southwark, London SE1, completed on their purchases earlier this year. The majority took tracker rate mortgages, many on three-year deals tracking below the base rate, for example Birmingham Midshires – part of HBOS - tracking 0.4% below base rate.

Example:

Two-bedroom apartment

Purchase price: £360,000

Loan to value: 85%

Product: Birmingham Midshires 3-year tracker (0.4% below base rate)

Mortgage amount: £312,120 (inc 2% fees)

Rental income: £1,798 per calendar month

Mortgage per month: At the start, with base rate 5.5%, mortgage rate 5.1%:

£1,326.51; prior to the 1.5% cut, with base rate 4.5%, mortgage rate: 4.1%,

£1,066.41; now: £676

Gross profit now: £1,122 per calendar month