8 October 2009

Tracker mortgages boosted by static base rate

Rachael Stiles

The Bank of England voted today to keep the base rate at 0.5 per cent, where it has now been for seven consecutive months, offering hope to variable rate mortgage customers.

Analysts predict that following the cuts, which left interest rates at a record low where they still remain, the Bank of England will keep the base rate the same until next year. The MPC also voted to maintain the Bank of England's £175 billion asset purchase programme.

The longer the base rate remains at record lows, the more encouraged borrowers become in their hopes to take advantage of a fall in the cost of borrowing, which has led to a rise in the popularity of tracker mortgages.

Commenting on the Monetary Policy Committee's decision, Ben Thompson, director of Legal & General mortgages, said: "There's been a notable shift in popularity towards tracker rates as expectations of a long period of low interest rates become entrenched amongst borrowers.

"Our figures show that almost one in five mortgages applied for through our Mortgage Club were tracker rates, up from 12% in the previous quarter, and we expect this figure to rise by the end of the year."

However, while Mr Thompson expects interest rates to remain static for some months to come, he warns that "rises are inevitable, so borrowers must be prepared."

It was widely expected that the base rate would not move this month, and that it will not do so until well into 2010, but research from Young Group shows that investors are already gearing up for a rise in the base rate next year, predicting that it will stand at 1.2 per cent by the third quarter of 2010.

"Today's announcement comes as no surprise," said Neil Young, chief executive officer of Young Group. "Base rate is unlikely to change until the Bank of England's Quantitative Easing policy has ceased and, as expected, the Monetary Policy Committee has delayed making any decision regarding changes to its Quantitative Easing programme until after next month's quarterly inflation report."

"Our Young Index results show that investors expect to see an upward movement in base rate, Mr Young continued, "but that the uplift will be gradual, as you would perhaps expect when emerging from an economic downturn."

Ray Boulger, of mortgage broker John Charcol said that while the "no change decision may be a bit of a non event" benefits of a continuously static base rate could be starting to trickle down into the mortgage market this month. "September saw the usual seasonal upturn and over the last few days we have at last started to see some real competition from lenders, albeit primarily for lower LTV business," he said.

"This activity has been encouraged by 3 month Libor stabilising just above Bank Rate at 0.55% and swap rates continuing to fall sharply following the MPC's decision in August to extend Quantitative Easing by £50bn."