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The mortgage conundrum: To fix or to track?

Fixed Rate or variable: Which is the best mortgage for you?

It seems almost unbelievable, but if the house price indices are right, then prices are almost back to where they were a year ago.

There are two good reasons for this:

The first is that with so few homes on estate agents books, buyers are having to pay close to the asking price in order to see off other potential purchasers. But this might only be a temporary state of affairs

The second factor though – base interest rates at their record low of 0.5% - could be with us for a long time yet.

A leading group of economic experts have now predicted that the Bank of England will hold the base rate at 0.5 per cent right through next year and on into 2011. Buyers have picked up on this and reckon they can pick up cheap mortgages now.

The Centre for Economic and Business Research (CEBR) says there are two factors that will prompt the Monetary Policy Committee to maintain the current level.

CEBR Economist Benjamin Williamson says these are "partly to counteract the expected sharp fiscal contraction, but also because the recovery does remain weak, so they have got to keep borrowing costs down".

However, not everyone agrees with this. The Confederation of British Industry reckons the base rate could climb back up to two per cent next year. And the Young Group of property portfolio managers found in its poll that the average investor expects a rise of around 0.7 per cent over the next 12 months.

If you're a first time buyer, these estimates might well have you pondering whether to get a foot on the housing ladder now

But just as important whether you're a first time buyer or an existing homeowner is the question of what type of mortgage to choose.

This "will rates rise or not?" conundrum is faced by first time buyers and existing owners alike: whether to choose the security of a fixed rate mortgage or take a gamble on a variable rate.

The few who accidentally found themselves on a rate linked to the Bank of England's base rate following the credit crunch have found themselves in a very lucky position. And it is primarily having rates at a record low that is keeping the housing market afloat.

However, like new borrowers, they will have to do their homework if and when their mortgage reverts to a less favourable deal. The key consideration for anyone looking for a new mortgage, whether as a first time buyer or existing borrower, is to decide whether you reckon base rates are likely to stay low for years to come or are likely to increase.

That's not an easy call. The Bank of England has signalled it will keep rates very low whilst the economy remains in the doldrums. However, now that the market seems to be on the mend, we could see rates rise far sooner than anyone would have anticipated just a few months ago.

Then of course there's the risk of a double-dip recession...

So when it comes to choosing a fixed or variable rate mortgage, we're sorry to say the best advice you can get is to listen to yourself rather than the legions of experts guessing when interest rates will rise and how much.

It's a guessing game banks and building societies are playing on a daily basis, trying to squeeze you – their customer – for as much as they can while ensuring they remain competitive.

Whilst there has been a great deal of criticism recently of lenders increasing rates for their fixed mortgages despite the base rate remaining at 0.5%, this only reflects what lenders think might happen to the base rate over the term of your mortgage.

Essentially, they're insuring themselves against what they think might happen.

And that's the key to it really. If your inner economist is telling you the extra you're currently having to pay on a fixed rate mortgage is excessive considering you think base rates will stay at rock bottom, then a variable rate is the best for you. If you're happy to pay that premium (and like the idea of knowing exactly what you'll have to pay each month) fixed is probably your best bet.

But the way to ensure you're getting the best deal available, regardless of whether you've chosen fixed or variable, is to compare like for like products once you've decided the type that suits you best. Identify how willing you are to be tied into a mortgage term and work out how much you would be prepared to pay to switch at your convenience.

With these two factors decided it is fairly simple to identify which lender is offering you the best combination of interest rate and arrangement fee.