



Bank of England has increased the base rate to 0.50% – what might this mean for you?

What's happened?

On Thursday 3 February 2022, the Bank of England increased the base rate from 0.25% to 0.50%. This is the second increase in the base rate since December.

What is the base rate and why does this matter?

The base rate, set by the Bank of England's Monetary Policy Committee, is the main driver of rates on mortgages and savings products in the UK. Changes in the base rate are usually likely to impact the cost of mortgages and return on savings. Generally, a higher base rate means banks and building societies are likely to increase the cost of mortgages, whilst savers can expect a slightly higher rate of interest on their savings. However, this isn't always necessarily the case.

Why is base rate increasing?

Base rate is increasing as a response to rising inflation. The Consumer Price Index (a measure of the costs of goods and services) hit 5.4% in January, well above the Bank of England target of 2%. By increasing the cost of borrowing, the Bank of England hope to reduce rising inflation.

What does it mean for my existing mortgage?

Four out of five mortgages in the UK are currently fixed rates. This means that borrowers will not see an immediate increase in the cost of their mortgage. For borrowers on a variable rate mortgage, including a 'Standard Variable Rate' mortgage, rates are likely to rise, though this depends on the type of variable rate mortgage you have. For those on a tracker mortgage, which directly follow the Bank of England base rate, your rate is likely to increase by 0.25% immediately and payments go up from next month. For those on a discounted rate, or Standard Variable Rate mortgage, your lender may decide to pass all, some, or none of the increase in rates on to you but will write to you before your payments increase.

What does it mean for mortgage rates?

For the 80% of UK borrowers on a fixed rate, this rate change will not yet impact your monthly payment. For those approaching the end of their existing mortgage deal, looking to purchase a property with new mortgage, or already on a Standard Variable Rate, it is likely that rates will increase. However, this rate rise has been well forecast in advance of the increase on Thursday and many lenders had already factored the increase in costs into new mortgage deals on sale. Some lenders will however withdraw mortgage rates and launch new products with higher rates. However, despite the two recent increases, the base rate remains below the pre-pandemic level of 0.75% and mortgage rates in general are low compared to historic levels.

What does it mean for my mortgage offer?

Those customers with existing mortgage offers will not see rates increase for as long as the mortgage offer remains valid.

**What should I do?**

In any event, the best course of action is to seek advice. Your mortgage advisor can help you with understanding how the increase in base rate might impact you, explore your options for remortgaging or switching rates, and give you help to access support if you think you may encounter difficulties in paying your mortgage.

Want to talk in more detail?

For more information about the base rate changes, and what they could mean for you personally, please don't hesitate to get in touch at enquiries@imab.net, call 0330 10 77 990, or book an appointment at <https://calendly.com/imab>.

Best wishes,

Phil Saville

Head of Sales & Operations