LOOKING TO RE-MORTGAGE IN 2023?

Is your fixed rate mortgage term ending in 2023. You're not alone. Around 1.4million households are set to renew their home loans this year[1].

Yet it will be a very different experience doing so in 2023.

Previously, the process of remortgaging was largely a case of finding a cheap deal – of which there were plenty – and signing on the dotted line. Thanks to rising interest rates, mortgages are now much more expensive making finding an affordable loan a far more challenging process.

An official forecast previously estimated that interest rates on home loans will triple for more than 800,000 households this year[2] .

Some 57% of borrowers have been paying back their mortgage in the past five years at a fixed interest rate of 2%, but the ONS said for 800,000 homeowners they will need to repay at a rate of 5% this year, resulting in many being pushed into serious hardship[3].

In fact, a warning came from the Financial Conduct Authority (FCA) this month that more than 750,000 households are at risk of defaulting on their mortgages over the next two years, as escalating borrowing costs make repayments unsustainable[4].

The average person, however, will pay £250 a month more on their new fixed rate deal[5].

With the unavoidable certainty that everyone will start paying more when their existing mortgage runs out this year, it's more important than ever to find the best value mortgage available to you.

Choosing your next mortgage

First you need to work out whether you would be better off with a fixed rate or a variable rate. Your decision will largely hinge on your current and future affordability.

A fixed rate is the answer if you want peace of mind that your monthly repayments won't budge during the next few years - you then need to decide how long you might fix for.

While most borrowers have opted for two-year and five-year fixes over the past decade, anyone who thinks they are unlikely to move any time soon could save in the longer term with a 10-year fixed rate.

Locking in for long periods can be prudent from a budgeting perspective, but if rates drop in the future, you could miss out on cheaper deals.

Think about your circumstances and crunch the numbers. It's also important to factor in the cost of arrangement fees with a new mortgage, which can run into thousands.

Those willing to gamble on what interest rates might do from here might pick a variable rate. Even with the base rate set to rise again next month - and could keep increasing – you could still be better off than with an expensive fixed rate.

Plus, variable deals also typically have no early repayment charge (exit penalty), so if fixed rates fell, you could swap and fix your payments without a fee to pay.

An alternative is to allow your existing deal to expire and pay your lender's standard variable rate (SVR) while you wait for fixed rates to fall to a more affordable level. The consensus is that mortgage rates will gradually decline throughout the year, even if interest rates go up.

However, the average SVR is currently around 6.64%[6] and with rates forecast to keep rising in the short term, they will get more expensive. If you end up paying a high rate for longer than expected, you could negate any savings from fixed mortgages rates dropping.

Getting help

An independent mortgage adviser can look for the best home loan for you across the market and do all the number crunching to give you access to all your options and help decide what works best for you.

They can give you access to far more products than if you went direct to a lender and have access to exclusive deals not available to borrowers who don't have an adviser.

Getting a professional on the case can also help enormously if you're self-employed, have an irregular income, or for those on maternity leave with a temporary drop in income. Older borrowers might also face difficulty if their lender won't lend to those beyond a certain age.

By approaching lenders they know to be flexible or helpful for such circumstances, your adviser can find the right mortgage.

Source:

[1]https://www.ons.gov.uk/peoplepopulationandcommunity/housing/articles/howincreasesinhousingcostsimpacthouseholds/2023-01-09

[2]https://www.telegraph.co.uk/business/2023/01/09/mortgage-rates-almost-triple-nearly-800000-homeowners-year/

[3]https://www.ons.gov.uk/peoplepopulationandcommunity/housing/articles/howincreasesinhousingcostsimpacthouseholds/2023-01-09

[4]https://www.telegraph.co.uk/business/2023/01/11/750000-households-risk-mortgage-default/

[5]https://www.bankofengland.co.uk/financial-stability-report/2022/december-2022

[6]https://www.moneyfactsgroup.co.uk/media-centre/group/fixed-mortgage-rates-cut-as-shelf-life-drops-to-15-days/