# Should you grab a fixed rate mortgage?

Homeowners are scrambling to fix their mortgages as banks start to increase interest rates.

Mortgage advisers are suggesting fixed rates may have hit their low point and the only way is up as lenders anticipate rises in the Bank of England **base rate**.

Experts say pressure is mounting to increase the Bank of England base rate after inflation, as measured by the **consumer prices index**, hit 3.7% in December — well above the Government's 2% target.

Howard Archer, chief UK economist at IHS Global Insight, says: 'There is a growing likelihood that interest rates will rise before mid-year.'

Millions of people have been happily sitting on their bank's **standard variable rate** (SVR) while base rate has been at an historic low of 0.5%.

While some are paying as little as 2.5%, the average SVR is now 4.79%. The good news is that if you have more than 20% equity in your home, you can fix for two years at as little as 3.49% with HSBC, which comes with a £399 fee. This would mean monthly repayments of £750 on a £150,000 mortgage.

Those with 35% equity can get an even cheaper fixed rate of 2.65% with First Direct, which comes with a £999 fee. This would mean monthly repayments of £684.

Aaron Strutt, a broker at Trinity Financial, says: 'Many lenders have increased two and five-year fixes in the past week. I think the market has bottomed out and fixed rates certainly won't get any cheaper.'

The race to **remortgage** is particularly urgent for those worried that house price falls will erode the equity in their home. This could force them to take a more expensive loan when they remortgage because lenders save their best deals for those with the biggest deposits.

Some economists predict falls of up to 10% this year, although most say house prices will remain broadly flat with some small dips depending on location.

Higher fixed rates can make a real difference to the total cost of your mortgage. For example, Northern Rock's two-year fix for those with 25% equity increased last week from 3.64% to 3.78% with a £995 fee. This would mean paying £288 more over two years on a £150,000 mortgage.

Skipton BS's five-year fixed rate at 3.98% for those with 30% equity was withdrawn and replaced with a deal at 4.68% requiring at least 40% equity. This would make a difference of a staggering £3,540 over five years.

Those who want to fix for five years and have equity of 35% can get 3.89% with First Direct with a £99 fee (monthly repayments £783). If you have 20% equity you can get 4.69% with National Counties BS with a £895 fee (monthly repayments £850).

Remember you can normally book a mortgage deal for up to six months before taking it out — so those who want to benefit from cheap variable rates for a while longer can keep the cheap fixed rate in reserve.