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MORTGAGE JOY FOR MILLIONS

Homeowners are set to enjoy a huge boost with mortgage costs plummeting

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By Sara Dixon

HOMEOWNERS are set to enjoy a huge boost with mortgage costs plummeting under plans to take interest rates to a record low, experts said yesterday.

Millions on tracker deals would see £600 slashed off their yearly repayments should the Bank of England take the rate down to 0.25per cent.

And it would be good news for those on fixed-rate deals, with lenders forced into a price war to attract new customers.

City traders are already speculating that Bank policy makers will halve the current 0.5 per cent rate within the next six months in a bid to kick-start the economy, and experts say this could benefit all homeowners.

Kevin Mountford, head of banking at MoneySupermarket.com said: “The likelihood of a base rate cut is greater now. It will bring benefits to borrowers if passed on.

“At the moment, for families and households under a lot of financial pressure, any savings would bring welcome relief. For people with an average mortgage of £150,000 on a standard deal, they are looking at saving up to £50 every month.

Kevin Mountford, head of banking at MoneySupermarket.com

“It could also mean fixed-rate deals will come down as the lending market becomes more competitive.”

At the moment nearly seven million people have variable-rate mortgages tied to the Bank of England’s interest rate.

For the past three years the Bank’s Monetary Policy Committee has kept interest rates at 0.5 per cent as the country struggles with the global downturn.

In recent turmoil on the international markets, with Europe and America both struggling with huge unresolved debt problems, billions were wiped off the cost of shares.

Last week the Bank of England was forced to revise down its growth forecasts.

Movements on the financial markets show that the City is confident there is a 30 per cent chance that the Bank rate cut will come before February.

George Buckley, UK economist at Deutsche Bank, said a cut was “technically possible”, although it was more likely that the current 0.5pc rate would carry on.

As the banking business braces itself for a change in interest rates some lenders have already started lowering their lending charges on certain mortgage packages.

Currently borrowers can take out a long-term, fixed-rate mortgage for as little as 2.99 per cent with the Coventry Building Society. The deal is available to people with a 35 per cent deposit and carries fees of £1,999. Aaron Strutt, of Trinity Financial, said: “The premium for taking a fix over a variable-rate deal is shrinking by the day and the latest fixed- rate deals are excellent value for money.”

However, money market experts also warned lenders may decide to withhold the financial benefits of a rate cut from borrowers and use a shift in interest rates to cash in.

Mr Mountford added: “Even on a variable rate mortgage, lenders don’t have to pass savings on. It is all about what is in the terms and conditions of the loan. Every time there is a rate change the banks have a chance to manipulate their profits by juggling savings rates and lending rates.”

According to Which? more than 40 per cent of mortgage borrowers are on standard variable rates, which kick in after cheap introductory mortgage deals expire.

Figures from the Halifax, based on the average Standard Variable Rate of 4.04 per cent, show a homeowner with a mortgage of £50,000 would be nearly £100 better off a year. That figure rises to £500 a year from someone facing repayments of £1,590 a month on a £300,000 loan.

The high street lender urged caution over the predicted interest rate cuts.

A spokeswoman for Halifax said: “Despite the drop in market interest rate expectations over recent weeks, a cut in interest rates remains very unlikely.

“However, given the somewhat uncertain economic outlook, interest rates are likely to remain below their long-run average for sometime yet.”

Market forecasts are for interest rates to edge up to 0.75 per cent around 2013. They are then seen rising very gradually to 1.5 per cent in late 2013 or early 2014 and reaching around two per cent by the third quarter of 2014.