Mortgage Pricing In the New Environment

Vida's Head of Intermediary Relationships, Helen Cawthra, takes a closer look at mortgage pricing in the new economic environment, and what it means for lenders, intermediaries and their customers.

It is not often that mortgages make the top read stories on the likes of the BBC website. Nor does it often occur that mortgages are the topic of so many conversations. But that is what has happened of late, since we saw rapid repricing in recent weeks.

However, with such widespread news coverage of mortgage rates, the technical aspects of pricing products have led to a degree of confusion. Some people have become confused as to why mortgage rates rose so sharply – more than the increase in the Bank Base Rate. Some people even believe mortgage lenders are just "profiteering" as the gap between the Bank Base Rate and general mortgage rates widens.

This does, however, give mortgage brokers a real opportunity to really demonstrate their credibility, a key element of the trust equation, by providing content to clients about the pricing of mortgage products.

It's Not Unusual

Even before the mini-budget, mortgage rates were rising. For many clients, they will not have experienced rising rates before. For older clients, who had mortgages before the financial crisis of 2008/9, it will be different. In the past, rates changed regularly – up and down – and we are now seeing this type of market returning. Nonetheless, after such a sustained period of low interest rates, the new market has come as a shock for many

Funding Lines

It is also worth pointing out that the interest rate set today by the Bank of England does not necessarily translate to mortgage rates, as lenders take a view of future rates, not current ones. At present, the consensus seems to be that rates will remain at current (new high) levels for two or so years, before falling back. However, we all know that a lot can change in the meantime and rate predictions could change.

In addition, the difference between the Bank Base Rate and a mortgage lender's rate will also be determined by their source of funds. Banks and building societies, for example, can use funding generated by savers (e.g., deposits). However, as rates rise, so do savings rates, to remain competitive, which is then passed onto the mortgage rate. These lenders, and other non-banks, will also obtain funding from other sources such as the wholesale markets and government funding schemes. All these can change quickly, due to the wider economic context and outlook, which will go beyond the simple mechanics of the mortgage market.

In short, pricing of mortgages can change quickly due to a range of issues that extend way beyond the Bank Base Rate.

SWAPs

To add to the complexity of it all, when it comes to the pricing of fixed rates, lenders use Swap rates. Whereas a straightforward tracker may follow an index such as BBR, Swap rates can fluctuate often during a single day, impacting the price of a mortgage rate. And when Swaps are volatile, this is when lenders pull fixed rates or reprice quickly and often.

To put things in perspective, two year Swap rates have risen more than 5% in 12 months, compared to an increase from 0.1% to 2.15% for Bank Base Rates. This is because Swap rates reflect forecasts on what the Bank of England base rate may be in the near future, and with markets predicting further rate rises in the future, this impacts current Swap rates.

With current political and economic uncertainty, it leaves a mortgage market that is unpredictable and one that must be agile and operating with rapid response. Brokers can use their market knowledge to help clients get a better grasp of the market and be prepared for what may or may not lie ahead.

For any assistance when placing a case with Vida, please contact the V-Hub on 03300 246 246, email v-hub@vidahomeloans.co.uk or visit vidahomeloans.co.uk/v-hub

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