Interest rates: Eight ways you can defuse the mortgage timebomb

Expert tips on what to do to keep up with your repayments

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Thu, 29 June 2023 at 4:17 pm CEST · 7-min read

Mortgage borrowers whose fixed-rate deals are coming to end now are facing eye-watering increases in repayments. Photo: Getty

Following the Bank of England's decision to put the base rate up to 5%, many borrowers are finding themselves hit with eye-watering jumps in mortgage repayments. Whether your fixed rate has already expired, is expiring soon or isn't due to for several years, you should be aware of the options available to make things easier. To help you, we asked several mortgage experts for their top tips.

If your fixed rate has already expired:

Talk to a mortgage broker

If your payments have jumped up, firstly don't panic. There is always help available. The first port of call should be a mortgage broker or even a couple of brokers. "If there is only one thing you do, it should be this. Speaking to a mortgage adviser or your lender to get their expert thoughts on the most suitable product or solution for you is essential," says Ben Thompson, deputy CEO, Mortgage Advice Bureau.

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A good broker can talk you through all the options. You may be able to extend the term of your mortgage so, while you pay more in the long term, your monthly repayments may be more manageable, or switch to a part-repayment, part-interest option, depending on your circumstances.

“Independent mortgage brokers have relationships with 100s of lenders, beyond the usual traditional high street banks, and they will often have access to special ‘broker only’ deals, so it can really pay off for borrowers,” adds Paul Welch, CEO of largemortgageloans.com.

“For the majority of advisors there is no upfront fee for receiving advice and considering your options, so there is no cost to you and it is incredibly valuable during volatile times,” says Polly Gilbert of Tembo.

But, if you don’t get anywhere with a broker, the Citizen’s Advice Bureau also offers debt advice for free if needed.

Switch to interest-only

If you can’t find a mortgage product that’s affordable, there are other options available, including the new Mortgage Charter. “Lenders have agreed to enable customers who are up to date with their payments to switch to interest-only payments for up to six months,” says Thompson. “Borrowers can also extend their mortgage term to reduce their monthly payments before having the option to revert to their original term. There are advantages and disadvantages to both.” While doing these won’t affect your credit rating and keeps your monthly repayments manageable, they also both mean the debt you’ve accrued isn’t reducing and you’ll pay more in the long run. You should speak to a mortgage advisor before acting to see what your options are.

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Ask for a payment holiday

A payment holiday allows you to pause all your repayments for a specified amount of time. You need to use this time wisely however and arrange your finances so that you can pay the mortgage once the payment holiday has come to an end. It’s worth being aware that taking a payment holiday will mean you pay back a larger sum (as you accrue extra interest over this period) and it’s also noted on your credit file.

Welch also flags that as part of the Mortgage Charter, the government has arranged for “a 12-month grace period provided to borrowers facing financial difficulties before repossession takes place (essentially, a mortgage payment holiday).”

Protect your credit profile

When you apply for a mortgage, a lender will run a credit check. If your credit rating is poor, they may refuse you a mortgage, or only offer one on a much higher rate. For this reason, it's important to keep your credit profile in good health. "Be very mindful of getting into debt management plans, bankruptcy and IVAs (individual voluntary arrangements) as this can wreck your credit profile, meaning you may not be able to obtain a mortgage or, if you can, it may be very expensive, compounding the problem and limiting your options," says Matt Marsh, founder of RBM Solutions. "If you can, try and avoid missing payments on your credit too or entering arrangements with them as this also has a similar effect."

You may be entering a period where you need to budget very carefully until you can work out a way to reduce your mortgage payments. Photo: Getty

Inversely, a good credit rating can help you get a preferential mortgage rate. "During periods of high interest rates, having a good credit score can give you a competitive edge, potentially saving you money and making it easier to secure the mortgage you need. If you have a good credit score, lenders are more likely to offer you a lower interest rate, even during periods of generally high interest rates," adds Welch. You can check your credit score for free online through companies such as Experian.

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Consider an offset mortgage

If you have a large amount of savings, even if they aren't earmarked for paying off your mortgage, you could use them to reduce the amount of interest you pay. "[An offset mortgage] is a type of home loan that allows you to link your mortgage with your savings and possibly other bank accounts (like a current account). The idea is that your savings are 'offset' against your mortgage debt, meaning you'll only pay interest on the difference between the two," says Welch. It's important to remember that this is only an option if you have a large amount of savings and there are a limited number of offset products available.

If your fixed rate is due to expire soon

Start researching six months before your deal ends

Many mortgages allow you to switch up to six months before the end of the fixed rate without a penalty. Take advantage of this now to speak to a broker and fix in a rate ahead of time. Many forecasters are predicting that the Bank of England is set to raise the base rate even more so looking at all your options, while scary at first, may prove a savvy move.

See if you can afford the hypothetical new rates now

"Knowledge is power, and the worst thing you can do is bury your head in the sand," says Gilbert. "Use online mortgage calculators to understand what your repayments would look like at current rates. You can even hypothetically increase the rate by a further 1 or 2%. This will reduce the 'shock factor', or at least give you time to accept the new normal, and begin to prepare yourself. The reality is, for most this will be a significant lifestyle change, so it's good to work out your new monthly budget, and perhaps start saving or making overpayments before your term ends."

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If you've got several years left on your fixed rate

It's never too early to start planning

If your fixed rate mortgage still has several years to play out, you might think that you've dodged all the fuss but, think again. The general consensus is that the period of ultra-low rates is over, and things are reverting back to a new normal. The earlier you act, the less painful things will be.

"Despite interest rate rises, savings rates are still lagging behind mortgage products, so choosing to reduce the overall balance of a mortgage could help a borrower to save a significant sum over the longer term," says Kevin Roberts, Managing Director of Legal & General Mortgage Services.

Try to pay as much capital off as you can without paying a penalty, either by upping your monthly payments or by paying off a lump sum. Most fixed rate mortgages allow you to pay up to 10% off every calendar year. Paying £50 extra off a month on a £200,000, 25-year repayment mortgage will mean you could save around £13,415 of interest over the life of your mortgage, or that your mortgage ends 1 year and 11 months sooner than it otherwise would have. To see what you can save on your mortgage, visit an overpayment calculator.

Finally, Marsh suggests you remember the famous Seven Ps: “Proper Prior Planning Prevents Piddle Poor Performance. As ever, speak to a whole of market advisor and have regular bi-annual check-ups, which will typically cost you nothing.”

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