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Fears mortgage rates could hit 7 per cent as experts say rises are ‘out of control’

Story by Adam Forrest • Yesterday 19:25

Homeowners have been warned that Britain is heading for a mortgage-rate “disaster” as the average five-year fixed-rate deal jumped above 6 per cent for the first time since November.

Mortgage holders were told that fixed-rate deals could soar to 7 per cent this summer, with experts urging the Bank of England and Rishi Sunak’s government to rethink the use of “out of control” interest rates to tame inflation.

Mr Sunak is under pressure to offer more help for struggling mortgage holders, as the typical five-year rate on the market rose from 5.97 to 6.01 per cent according to financial data experts Moneyfacts. The average two-year fixed-rate mortgage also jumped from 6.42 per cent to 6.47 per cent.

The grim figures come as:

- Mortgage brokers warned that monthly costs "may still get worse before they get better"
- The Bank of England was urged to pause rate rises to avoid mortgage "misery" for millions
- Mr Sunak vowed to "keep throwing everything" at his bid to bring down inflation
- The OECD reported that the UK is the only G7 nation where inflation is rising

It comes after the Bank of England pushed the UK base interest rate to 5 per cent last month in a bid to tame persistent inflation. Mortgage brokers warned of further pain if the Bank raises the base rate to 6 per cent in the months ahead, as the markets expect it to.

Paul Welch of LargeMortgageLoans.com said that swap rates – the rates the banks pay to borrow money – could push mortgage rates even higher. "It gives me no pleasure to say that we could realistically see some fixed rates reach 7 per cent before the summer is out," he said.

Mortgage broker Riz Malik, founder of R3 Mortgages, told *The Independent* it was "perfectly possible" that fixed-rate deals could hit 7 per cent this summer if the base rate is increased again.

He said some clients moving from mortgage interest rates below 2 per cent to fixed-rate deals closer to 6 per cent were facing increased monthly costs of between £700 and £800. The expert said another 1 per cent increase in interest rates would add a further £400 a month.

Sunak and Hunt under pressure to help homeowners (Downing Street)

Mr Malik called on the Bank of England to halt the base-rate rises. "We're on course for more pain from the mortgage disaster. It's out of control. It's unsustainable to have these increases – it's going to completely decimate the housing market," he said.

The mortgage broker said the Sunak government should start to push the Bank to pause the rate rises. "Something needs to change on the approach to interest rates, because it's not having the desired effect on inflation."

The National Institute of Economic and Social Research (NIESC) warned last month that 1.2 million households would become insolvent this year from higher mortgage payments, after the Bank hiked the base rate to 5 per cent.

NIESC economist Max Mosley told *The Independent* that the number would be "significantly higher" if the Bank increases the base rate again in the months ahead, saying that predictions that lenders will be forced to offer fixed-rate deals of 7 per cent were "eminently plausible".

He said Mr Sunak and the chancellor Jeremy Hunt should now consider revisiting the radical approach taken during the Covid crisis in 2020, when the government helped to arrange repayment holidays of up to six months.

Tom Waters, associate director at the Institute of Fiscal Studies (IFS), said that 1.4 million households coming off their current mortgage deals were set to lose more than 20 per cent of their disposable income. "It's a really large chunk of their income," Mr Waters told *The Independent*.

Despite the pain ahead, the IFS economist warned that the government was in a "really difficult position" because coming up with direct support for homeowners will "work against" what the Bank of England is doing to tame inflation. The government would be putting money into the economy, while the Bank is trying to dampen demand. "They have to hope inflation comes down," added Mr Waters.

Homeowners who are currently remortgaging face interest rates soaring over 6 per cent (PA)

The mortgage-rate rises are like "rolling financial thunder" that will cost hard-pressed families hundreds of pounds a month, according to the shadow chief secretary to the Treasury Pat McFadden.

The Liberal Democrats – again calling for a £3bn mortgage protection fund – urged the Sunak government to do more in response to climbing mortgage rates. Treasury spokesperson Sarah Olney said: "Rishi Sunak asking homeowners to hold their nerve is sounding more tin-eared by the day."

Mr Hunt agreed a deal with the big mortgage lenders at the end of June to provide more flexibility to those struggling with increased repayments. But the government is under pressure to do more.

Some Tory MPs have suggested "more generous" loans to cover mortgage payments for Universal Credit recipients, while others have urged the PM and chancellor to bring back tax relief on mortgage interest.

Grilled by senior MPs on the liaison committee, Mr Sunak refused to say whether he would hit his target of halving inflation by the end of 2023, but vowed to "just keep throwing everything at it".

Mr Sunak reiterated his support for the Bank of England's approach, despite it having got its forecasts wrong, while Treasury minister Andrew Griffith told a Lords committee that the central bank still has "a positive scorecard" on inflation.

It comes as the Organisation for Economic Cooperation and Development (OECD) found that the UK is now the only G7 country where inflation is rising. The international body found that inflation across the group of wealthy nations fell to 4.6 per cent in May from 5.4 per cent the previous month.

Meanwhile, Sainsbury's said food inflation is "starting to fall" – but the supermarket also warned that prices would not come down to the level enjoyed by customers before Russia's invasion of Ukraine. The latest official figures show that food inflation eased slightly in May but remained at a stubbornly high 18.4 per cent.

Tory minister Johnny Mercer was asked on Sky News whether people were irritated by "billionaire" Mr Sunak telling them to "hold their nerve" during the cost of living crisis.

Mr Mercer said the "class war stuff" goes down badly with voters. The veterans minister also claimed it is "not correct" that people are forced to use food banks, suggesting that taking handouts is a personal choice.

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