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Navigating rising mortgage rates

Practical steps for homeowners and buyers to consider

Many homeowners and potential buyers face increasing borrowing costs. However, it's possible to ease the burden of escalating mortgage payments with the right strategies. Here's how you can counterbalance the impact of rising mortgage rates.

Preemptive fixed-rate deals

As interest rates surge, safeguarding yourself from future hikes by securing a fixed-rate mortgage can be a smart move. You can lock in a favourable rate six months in advance. Consulting with a professional mortgage adviser can help you land the most competitive rates. Unlike variable rate mortgages that fluctuate with borrowing cost changes, the interest on a fixed rate mortgage remains constant for the term, typically two to ten years. However, ensure you won't need to terminate the mortgage prematurely, as early redemption penalties can reach up to 8% of the outstanding mortgage debt.

Mortgage term extension

Another way to reduce monthly mortgage repayments amidst interest rate increases is by opting for a longer mortgage term. While this does increment the total interest charged over the loan's lifetime, it helps keep the monthly payments lower. Some lenders may even offer mortgage terms of up to 40 years, depending on your age at the onset of the loan.

Overpay your mortgage

Overpaying your mortgage might not decrease your repayments immediately, but it mitigates the higher interest costs in the long run. Contributing extra each month minimises your outstanding debt, reducing the interest charged over your mortgage's lifespan. For example, overpayments of £50 a month on a £200,000 mortgage with a 25-year term and 5.5% interest would save you £15,450 over the mortgage term. This can more than compensate for higher rates in the long term.

Budgeting and cutbacks

In light of escalating living costs, it may seem challenging to make cutbacks. However, if you're aiming to secure a new mortgage, it's a crucial step. Lenders consider your income and evaluate your affordability based on other expenditures. Demonstrating cutbacks to lenders can instil confidence in your ability to manage higher monthly mortgage repayments.

Opting for a less expensive property

Consider a less expensive property if rising mortgage rates are straining your budget. For every 0.25% increase in mortgage rates, you'd need to borrow around £5,000 less to prevent a rise in your monthly mortgage repayments. With the housing market slowing down due to rising interest rates and living costs, you might be in a prime position to negotiate with sellers.

Save a larger deposit

If finding a cheaper home that fits your needs seems unlikely, or if you're unsure about negotiating a lower asking price, consider saving a larger deposit to buffer interest rate increases. Per the previous example, an additional £5,000 is needed to offset every 0.25% interest rate hike on your monthly mortgage repayments.

Renting out a room

Another viable option to pass lenders' affordability tests amidst rising interest rates is to generate income from your home. For instance, renting a room to a lodger could help cover the shortfall caused by the interest rate hikes. ■

Ready to navigate the challenges of rising mortgage rates?

Let us help you make an informed decision. Our highly experienced team of mortgage advisers are ready to guide you through the complexities of the mortgage market and find the most suitable options for you. Don't leave your financial future to chance. For more information, please speak to us.

