

Contractors should lock in low mortgage rates as soon as possible

With lenders like Northern Rock clearly in trouble, contractors should move fast to grab good mortgage deals without delay.

Contractor Mortgages

For the past five years in the UK, mortgage rates have been low. The result has been that a very competitive market has sprung up, and this has guaranteed contractors an excellent rate. Special mortgage offers, like [contractor mortgages](#), which allow the lender to evaluate contractors on per-contract income, as opposed to employees who prove their income level with monthly pay may become more difficult to obtain. Or there are self-certification mortgages in which the contractor proves the income level to the lender, and these too may become harder to get.

'But the market for mortgages in the UK is in the midst of change,' says Tony Harris, a principal with the Richmond, Surrey-based IFA ContractorFinancials.

Subprime Debt Challenge Leads To Higher Rates

You need to understand what is going on in order to see why it's important to lock in a low mortgage rate as soon as possible.

The subprime credit crunch which began in the US (where some commercial debt went bad) has spread all over the world because the bad debts were sold across the globalised economy. Banks bought the bad debts because the independent ratings agencies gave the okay--this is where the real problem lies and it is no accident that the European Commission is investigating the ratings agencies.

Northern Rock

Then on September 14, we learn that one of the biggest mortgage lenders in the country, Northern Rock, can't pay its bills and needs help from the Bank of England. Oddly enough, this isn't just bad management on the part of the board of the company. Because of all the worry about bad debt due to the subprime crisis, banks aren't lending as much to each other as they were before. Now Northern Rock doesn't have any problems with bad debt; even the Financial Services Authority ruled that Northern Rock had a solid book of loans and that there was no threat from that quarter.

“ The market for mortgages in the UK is in the midst of change ”
Tony Harris - ContractorFinancials

What was missing was the ability for Northern Rock to finance its operations with what is called interbank lending. This is what had dried up through no fault of its own. And this is why the Bank of England was willing to support Northern Rock with a special loan.

No Financial Crisis

"So there is no reason to assume that some sort of financial crisis is building up," says Harris. Harris adds 'We expect the housing market to remain resilient due to structural reasons that will continue to exist in the UK whilst ironically the sub-prime problems in America would appear to have had a beneficial influence on the direction of interest rates in the UK after the Fed's 0.5% cut in their own rates yesterday. Our concern is that lenders will price in risk to their mortgage rates far more aggressively in future and so for certain borrowers we could find mortgage schemes becoming more expensive.

Our advice is to look at current base rate tracker schemes as a way of locking your payments into general interest rate movements rather than be at the mercy of discounted schemes tied to lenders variable rates which may become more expensive as mortgage companies seek to increase margins in the months to come.


Harris also expects that obtaining a self-certification mortgage could become more difficult. "We have specialised underwriters who handle our cases and we avoid self certs. I expect some smaller brokers without the contacts to struggle to help their contractor clients in future."

All the more reason to go after that mortgage you've been thinking about without delay.

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Tony Harris is MD of ContractorFinancials, recognised as the specialist independent financial adviser for Contractors.

ContractorFinancials offer jargon free and timely mortgage, pension, insurance and investment solutions tailored to the unique needs of Contractors. [Read Full Profile...](#)

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“ If you are looking for a mortgage it makes sense to lock one in before rates go up any further ”
Tony Harris - ContractorFinancials

Service.

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