

Contractors have short window to benefit from record low long-term mortgage rates

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Contractors have only a short, six-month window to benefit from record low long-term interest rates before global macroeconomic events cause the UK's interest rates to increase.

"We've had a fantastic period of cheap money with Bank of England interest rates at near zero but this is forecast to change during 2016," explains [Taj Kang](#), mortgages expert at [Contractor Mortgages Made Easy](#) (CMME).

"Before that happens, contractors seeking greater financial stability over the medium term can benefit from record long-term fixed rates of interest that are offering unprecedentedly low rates for five to ten years. But only if they act fast."

Interest rates are impacted by events closer to home than China

Kang notes that whilst the big story is China's stock market crash, the real story, and the greatest influences on the UK's interest rates and inflation, is something different: "There is much noise being made in the media that China's stock market meltdown is the start of another global slump like we saw in 2008.

"But what we are seeing now is something different. The spectacular boom in China's stock market was fuelled by smaller investors borrowing money to invest. They are a very different type of investor to those found in the other developed economies in the 'West'."

"China is a massive force in the global economy, but there are areas that will be impacted and others that will not. The prices of oil and commodities have already seen major changes due to China's economic slow-down that have affected UK inflation, but interest rates in the UK and USA have not been affected."

Kang highlights that the economic data coming from developed economies is very strong compared to 2008. Plus what drives the UK's interest rates are factors such as the rate at which banks lend to each other and the availability of funds. It is these factors that look set to increase rates at some point during 2016.

The 'new normal' of interest rates means rate rises mid-2016

"It is now widely accepted that the 'new normal' interest rate for a healthy economy is around 2.5%," continues Kang. "Opinion in the Bank of England's [Monetary Policy Committee \(MPC\)](#) varies between increasing rates as early as the end of this year, while others are saying rates should actually fall further.

"If you try to normalise that opinion based on what is happening today, you are most likely looking at an increase in base rate half way through 2016. The new normal also suggests that rates must increase very slowly, so we are likely to see a gradual increase over three years.

"The factors that are going to impact on how lenders react and price mortgages as interest rates look set to rise are the amount of borrowers being attracted, depositor numbers and market sentiment over what will happen over longer term – this will influence how banks themselves hedge against interest rates and the resulting price of money in two to three years."

Long-term fixed rates are highly attractive

The bottom line is that the cost of borrowing is going to increase, and for contractors on variable rate mortgages, it could increase significantly. This is why Kang believes that long-term fixed-rate deals offer contractors seeking stability in their outgoings both the certainty they need and outstanding value.

"Of course there will be personal factors influencing a contractor's mortgage decision, but right now from a pricing and value point of view contractors should consider nothing shorter than a five year term. The best five year deal available from one of our lenders offers a rate of 2.54% over five years with no arrangement fees.

"If you put this into context that by 2019 the rates may be hovering around 2.5%, a contractor with a fixed-rate deal is effectively running a negative interest rate.

"It becomes more difficult to predict what may happen over ten years, but the same lender is offering a ten-year fixed-rate deal at 3.24%. This offers contractors much more stability. When you also consider that contractors are typically opting for much shorter mortgage terms, this kind of long-term stability is a perfect match."

Contractors have only a limited window to benefit from long-term deals

However, Kang warns that these deals won't be available for much longer – in fact, contractors need to act now. He explains: "Anyone with a deal due to expire in the next six months should review it now. Even if the existing fixed-rate deal won't expire for six months, contractors can secure a position early.

"There is a lead time of four to eight weeks to get a mortgage offer, depending on the lender. And the lenders with the best deals typically have the slowest processing times due to the volume of applications.

"Every offer has a three-month period before the money has to be drawn down, so the entire application process is likely to be four to five months, making the next six months a good window,"

Kang concludes: "Contractors who don't allow themselves to be distracted by media hype over global events that are unlikely to impact on them, and focus instead on keeping close tabs on their own affairs are likely to benefit from the best mortgage outcomes."

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