Rate rise fears spark rush to remortgage

Jump of 42% in number switching loans to a rival

By **Becky Barrow**
Business Correspondent

PANICKED homeowners are rushing to remortgage because they fear interest rates are about to rocket, experts said yesterday.

Figures from the Bank of England revealed a 42 per cent jump in the number of people remortgaging, compared with the same month in 2009.

In November, 34,262 switched their loan to a rival bank or building society, the highest number for two years.

This figure compares to 23,973 in November 2009.

The rush to remortgage is fuelled by growing fears that the Bank is finally on the verge of raising rates.

The base rate has been stuck at 0.5 per cent since March 2009, the longest period of frozen rates since the aftermath of the Second World War.

But there is a growing suspicion among economists, mortgage experts and business lobby groups that the base rate will rise, possibly within months.

For example, the CBI expects the base rate will hit 1.25 per cent by the end of this year and 2.75 per cent by the end of 2012.

Howard Archer, chief UK economist at the consultancy IHS Global Insight, said: 'There seems to be an increasing risk that the Bank could raise interest rates earlier than expected in 2011 to counter above target and rising inflation.'

Melanie Bien, director of independent mortgage broker Private Finance, who predicts the base rate could double by the end of the year, said: 'The remortgaging market has been dead in the water.

'But it is coming back to life. People are now taking the plunge because of the fear that rates are going to go up.' The mounting pressure on family finances from higher VAT bills, the rising cost of living and the National Insurance rise in April mean people urgently need to cut their mortgage bill.

Since the credit crunch, most homeowners have simply moved on to their lender's standard variable rate when their deal

'Millions will face a shock'

ends. But the likelihood that rates will rise this year and the availability of cheap mortgage deals means homeowners are deciding to remortgage, rather than risk opting for a standard variable rate which goes up.

NatWest, part of Royal Bank of Scotland, is offering a two-year fixed-rate deal for 2.75 per cent, although it is open only to those who borrow 60 per cent or less of the property's value. By comparison, many of the big lender's standard variable rates are around 4 per cent.

David Hollingworth, from the independent mortgage broker London & Country, said: 'People realise that there is an opportunity to save money on their mortgage.'

Experts have warned of 'zombie households' sleepwalking towards a financial meltdown when interest rates rise.

They have become used to their rock-bottom monthly repayments, lulled into a false sense of security, and will struggle to afford their super-size mortgage when rates finally rise.

Yesterday the Council of Mortgage Lenders said millions of households will face an interest rate rise shock, but insisted most will do everything within their power to cut back on other spending.

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Inflation alert after surge in world trade

By **Simon Duke**
City Correspondent

FEARS of an imminent rise in interest rates escalated last night after a surge in manufacturing triggered record rises in the cost of raw materials.

Thanks to booming global trade, the cost of basic commodities, such as cotton and wheat, is now rising at a pace not seen for at least two decades, a survey released yesterday found.

The Chartered Institute of Purchasing and Supply revealed that input price inflation – the costs involved in producing finished goods, including energy and raw materials – in December shot to the highest level since its manufacturing survey began in 1992.

The revelation will reinforce concerns that soaring raw material costs will drive up inflation on the High Street, in turn forcing the Bank of England to raise interest rates.

Simon Ward, an economist at fund manager Henderson, said: 'There's a real risk that these higher rates of inflation become entrenched. The longer the Bank delays raising rates the higher they will have to go.'

Many economists predict that inflation will smash through 4 per cent this spring – twice the Bank's target level – after hitting a six-month high of 3.3 per cent in November.

The robust recovery in the world economy is driving up the price of raw materials, such as metals, chemicals, oil and gas, which British workshops turn into finished goods.

The Bank's Monetary Policy Committee has recently become increasingly concerned over this surge in input price inflation.

Howard Archer, an economist at IHS Global Insight, said: 'This will not go down well at the Bank of England, and it will fuel speculation that the MPC could be pressurised into raising interest rates.'

However, the potent upturn in global trade has at least allayed concerns that the Government's austerity cuts will constrain Britain's relatively robust economic recovery.

A surge in overseas orders lifted output in Britain's factories and workshops to a 16-year high in December, the CIPS survey revealed.