By Lauren Thompson

INTEREST rate panic has gripped homeowners who are scrambling to bag a cheap fixed mortgage deal.

High inflation has sent shockwaves through the mortgage market as borrowers fear it could spark a series of rises in the Bank of England base rate.

Mortgage broker London & Country has seen a 40pc increase in the number of inquiries since last month.

Thirty-five lenders have increased their fixed rates in the past two weeks, adding up to £3,600 over the term of a typical five-year deal for a £150,000 loan. HSBC and Woolwich pulled their best deals on Monday.

At the end of December, nine banks or building societies were offering five-year fixed rates below 4pc. Today, only two offer them and borrowers need a hefty deposit to qualify for these.

The prospect of a rate rise is creating a dilemma for the 7.6million homeowners on tracker loans — which follow the base rate up and down — and for those paying their lender's standard variable rate.

Most trackers are cheaper than fixed rates — for example, HSBC offers a rate of 2.29pc — and SVRs can be as low as 2.5pc. But a sudden, steep increase in interest rates could leave these borrowers paying more than those who opt for a fixed rate.

Borrowers face an added quandary because economists and the money markets have different views on the outlook for interest rates.

Many economists argue the UK economy is very weak and that inflation is being imported, mainly through increased commodity prices. Yesterday, growth figures showed the economy actually shrunk by 0.5pc at the end of last year, making a rate rise even less likely.

Most economists suggest if base rate increases this year, it will be slow and gradual — perhaps to 1pc by the end of the year, 2pc by the end of 2012 and 5pc by 2016.

Professor Peter Spencer, from the Ernst & Young ITEM club, which bases its forecasts on the economic model used by the Treasury, says: 'The base rate must go up, but not until it's clear the economy can support the austerity measures. There will be no rise in base rate this year, even on our most optimistic forecasts.'

But those who speculate on the money markets have been pushing up the price of borrowing. This dictates the interest rates offered by banks on mortgages.

David Hollingworth, of London & Country, says: 'The rising cost of money market rates indicates that lenders expect the cost of mortgage borrowing to get more expensive. Fixed-rate mortgages are only going up at the moment.'

Mortgage advisers suggest those fixing should consider five-year rather than two-year deals to avoid coming out to higher rates. The dilemma is that five-year deals are more expensive.

Mansfield BS has the best two-year fixed rate for someone with 25pc equity at 3.09pc with a £999 fee. Monthly repayments on a £150,000 mortgage would be £718. The best five-year fix for those with 25pc equity is with Yorkshire BS at 4.29pc with a £495 fee, giving monthly repayments of £816. That's an extra £1,848 over the first two years.

The question for borrowers is whether they will make that money back because a new mortgage will be that much more expensive in 2013. Another headache facing many owners is falling house prices. Those with plenty of equity and a good credit history can still get a good fixed rate.

But those who have seen their equity crumble could find it difficult to remortgage and could be forced to pay more.

The best two-year fix for someone with 10pc equity comes from Newcastle BS at 5.15pc with a £894 fee. Monthly repayments would be £890 on a £150,000 loan. That amounts to £4,023 more over two years than the Mansfield fix for borrowers with bigger deposits.

Calculate the effect of any rate rise on your mortgage at *www.thisismoney.co.uk/rise*

House prices are expected to continue falling, which could make it even more difficult for those who delay remortgaging.

Howard Archer, chief UK and European economist at IHS Global Insight, predicts prices will fall by 6pc in 2011. The housing market is being dogged by high unemployment, muted wage growth, low consumer confidence and difficulties in getting a mortgage — particularly for first-time buyers.

'Any early interest rate hike would be even more bad news for the housing market and likely to push down prices,' says Mr Archer.

Ed Stansfield, of research consultancy Capital Economists, goes further, predicting a lack of mortgage funding combined with unemployment will mean price falls of 10pc this year.

For those who trust the economists' predictions that base rate won't increase too much, there are cheap tracker deals available.

HSBC has a lifetime tracker at 2.49 percentage points above base rate, giving a current rate of 2.99pc for those with a 20pc deposit. Initial repayments would be £711 on a £150,000 loan.

The bank also has a tracker at 2.29pc (1.79 points above base rate) for those with a 40pc deposit. Initial repayments would be £657 a month.

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Picture: SWNS

'We set our home loan at 3.28pc'

PHILIPPA and Andy Moores have remortgaged to a fixed-rate with Woolwich at 3.28pc. Their broker London & Country found the two-year deal, which comes with no arrangement fee, free legal and valuation and £300 cash back.

The couple, from Wiltshire, were previously on HSBC's standard variable rate, which is 3.94pc.

Mrs Moores, 46, a social care worker, says: 'We have made some bad decisions with our mortgage in the past and have been stuck on a high rate, but this time we took the advice of our broker and got a good deal. We wanted a fixed-rate, as we were worried about rates increasing and with a young family we need to be able to budget. It is handy to know our mortgage payments will be the same every month.'

The Moores (pictured with their children — from left — Alex, 12, Fiona, eight, and Chloe, 13) have about 60pc equity in their home, so were able to benefit from the lowest rates.

'We can also overpay by up to 10pc per year, so we'll definitely continue to do that if we have any spare cash,' says Mrs Moores.

INCREASE IN A £150,000 FIXED MORTGAGE

Two years	Deposit	Two weeks ago	Today	Change
RBS	40%	2.75% (£692pm)	3.15% (£723pm)	+£31
Woolwich	30%	3.08% (£718pm)	3.39% (£742pm)	+£24
HSBC	10%	4.99% (£876pm)	5.49% (£920pm)	+£44
Five years	**Deposit**	**Two weeks ago**	**Today**	**Change**
HSBC	40%	3.99% (£791pm)	4.29% (£816pm)	+£25
Skipton	30%	3.98% (£790pm)	4.68%* (£849pm)	+£59
Woolwich	30%	4.49% (£833pm)	4.89% (£867pm)	+£34

*40% deposit