

## **Home buyers advised to base their affordability decisions on long term swap rates**

**4 February 2010** As the official UK Bank Rate (BR) holds steady at 0.5% for the eleventh month in a row, there is much discussion about potentially significant and rapid increases in interest rates on the back of rising inflation. Of course 'significant' in political and economic terms means an increase of 0.5% in BR over a period of a few months and possibly 2% by the end of 2011. However, this short term view is not necessarily as significant for a long term mortgage borrower.

Ashley King, Head of Treasury at Arbutnot Latham Private Bankers points out:

“Over the past ten years, 5 to 10 year swap rates, which drive the cost of mortgage funding over a similar period, have generally been between 3.5% and 6.5%. The average over this period is circa 4.5% to 5%, which is viewed by many economists as the 'neutral rate' for UK interest rates. Recent events, such as the credit crisis and the Bank Rate falling to an historical low, may not have fundamentally changed the outlook for neutral rates. It's fair to say that the current 10 year swap rate of around 4% is at the lower end of the range, which does translate to interest rates heading back towards 5% as the UK economy recovers.

“Most lenders' 5 and 10 year mortgage rates are presently building in a margin of around 1% to 1.5% over cost of funds. If long term rates begin to increase, these fixed mortgage interest rates could rise to well above 6% if current margins are maintained. These margins will only decrease if and when liquidity - and therefore competition - return to the market.”

Given this view, independent mortgage broker, Private Finance, is recommending to clients that they budget in accordance with these longer term indicators when calculating the maximum monthly repayments they can afford. They should not be discouraged from buying a property, just because a historically low UK Bank Rate is likely to increase in the short term. Simon Checkley, managing director of Private Finance, advises:

“If a mortgage based on these longer term rates can be afforded then we see no reason why a buyer should be put off a property purchase just because there is talk of increases in inflation and interest rates. Against the background of this long

term approach, borrowers should look to benefit in the short term from some of the attractive tracker rates currently available at rates as low as 2.5%; just don't use that rate as a guide to calculating what you can afford in the long term.

“Within your long term strategy, there are always opportunities to save money against the long term average rate, so it's important to seek the advice of an independent, whole of market broker who can advise on the best deal at all times.”

- ENDS -

### **Notes to Editors**

See attached charts sourced from Reuters, showing 5 year and 10 year swap rates from Q1 2000 to Q1 2010

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### **Private Finance – Key Facts**

- Private Finance is an independent mortgage broker ([www.privatefinance.co.uk](http://www.privatefinance.co.uk)) which advises and arranges large loans and associated products and services for high value clients. Private Finance gives introducers exclusive access to bespoke mortgage solutions for their clients and lenders exclusive access to new high net worth market segments.
- Since its launch in 1999, Private Finance has developed strong relationships with a number of estate agencies, and currently has exclusive arrangements with property agency brands including Jackson-Stops & Staff, Strutt & Parker, Frank Harris, The County Homesearch Company and Sullivan Thomas
- Private Finance has grown organically, without seeking external investment, and thus has had freedom to develop its own bespoke culture and business model over the past ten years. Its clients are high earners and wealthy individuals and the essence of the Private Finance service, delivered using the latest technology without losing the 'personal touch', is the quick and efficient arrangement of a suitable mortgage, leaving the client free to get on with their busy life.

### **Arbuthnot Latham Private Bankers – Key Facts**

- Arbuthnot Latham ([www.arbuthnotlatham.co.uk](http://www.arbuthnotlatham.co.uk)) is an independent, high quality and personalised banking and wealth management service, consisting of three core elements:
  - Banking
  - Investment Management
  - Financial Planning
- Arbuthnot Latham is part of the Arbuthnot Banking Group PLC. Arbuthnot has a 176 year history of serving its customers. Its independence and continual focus on a strong balance sheet, healthy liquidity and a stable deposit base have stood it in good stead over the years.
- Arbuthnot Latham & Co. Limited is Authorised and Regulated by the Financial Services Authority