Fixed v Tracker?

Don't gamble on your future

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The mortgage market has never seen times like these. Interest rates at an all time low; house prices dropping like a stone; banks and building societies reluctant to offer mortgages. The only certainty in this market turmoil is that you need the best, most professional, independent advice to take one of the most important decisions in your life.

One of the most frequently asked questions we get asked at True is "should I take out a Fixed or Tracker mortgage?". Before giving you my opinion on this thorny subject it would be best to simply spell out the difference in the two mortgages. So here goes:

Fixed

A Fixed mortgage does what it says on the tin – the interest you pay on your mortgage is fixed at a level agreed with your lender, for a given (fixed) term – commonly 2 years. If interest rates go up (or down), you're unaffected.

Tracker

A Tracker mortgage mirrors the Bank of England's base rate, so the interest you pay on your mortgage will go up and down accordingly. The terms of these mortgage contracts are typically 2/3 years.

Over the last couple of years, homeowners with Tracker mortgages have, on the face of it, been laughing all the way to be bank. With interest rates at 0.5%, repayments have plunged putting £s in their pockets. But beware! What goes down is bound to come back up. Some industry pundits are predicting that the Base Rate will rise to 2.5% by the end of 2010 and to 4.5% by the end of 2011. Even if these predictions are not entirely accurate, what is just about certain is that the Base Rate is bound to rise. Homeowners with Tracker mortgages will quickly feel the affect of these rising rates.

My view, after 20 years experience in the industry, is that Fixed rates are a better option for most, as they offer certainty. When it comes down to it, any decision to take out a mortgage should be based on what you can afford now, and what you're confident that you'll be able to afford some years into the future. No one should take out a mortgage gambling on the fact that interest rates will come down. That is a recipe for certain disaster, potentially having huge implications on your finances.. Taking out a mortgage is one of the most important decisions a homeowner will make and it really shouldn't ever be a gamble.

The only times when I might recommend a Tracker mortgage are:

The Product is Capped, therefore having a maximum rate for a period and then NO early repayment charges to follow.

The Product has NO early repayment charges, allowing it to be switched to another rate either with the same lender or another.

The Product does have early repayment charges but offers the facility to switch to a fixed rate with the same lender without early repayment charges.

So, to sum up – Fixed rate mortgages are definitely the best bet at the moment and attractive longer term fixed rates (10 years+) will become more available in the near future. Then you'll be able to settle on a repayment amount that you're happy with and be absolutely sure that it will not change over the Fixed Term. Yes, you'll see base rates fluctuate up and down but, providing your circumstances don't alter radically, you'll be safe and secure in the knowledge that you can afford your monthly repayments, no matter what's happening in the market.

This article only outlines my thoughts. Please give me a call on 0161 924 2904, email me at martin@truemortgages.co.uk or drop in to our offices and I'll be delighted to discuss your personal circumstances in more detail.