

Inflation at 20 year high!

Does that mean Mortgage Rates will soar?

No, we don't believe it does, but now I have your attention let's discuss what is actually happening with mortgage rates and what you can do to ensure you are taking advantage of the historically low base rate whilst safe-guarding against the future inevitable increases due to inflation.

I am sure you will have seen the news last month stating that the inflation figures for September were at historic highs. The Consumer Prices Index (CPI) rose to a towering 5.2% and the Retail Prices Index (RPI), which is the calculation that includes the cost of mortgage interest, was reported at the dizzying height of 5.6%, the highest it has been for 20 years.

But what does this really mean for you and your mortgage?

Traditionally when inflation was high the Bank of England would increase their base rate meaning that the cost of borrowing money became more expensive. This effectively deterred people from borrowing more as they could not afford the repayments as easily. Without the ability to



Are you paying too much for your mortgage?

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For all your mortgage options call Paul on
612611

*Correct as at 20th October 2011

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All advice is free!

We earn fees from the banks themselves.



borrow people stop spending as much. The effect of this, inflation comes down, in real terms the costs of things drop. That is the theory anyway!

In reality inflation is being driven by a number of external factors and some domestic alterations to the economy considered unusual (VAT increase, Energy Prices) and have had an expected affect. The external factors include the global price of fuel and food.

Regardless of how much money people have to spend on DVD's, televisions, cars and other "luxuries" they will always have to heat their homes and feed their families as well as get to work! Therefore by simply raising interest rates as per the traditional model this is unlikely to stop people buying the things which are driving inflation and in fact will have the undesirable affect of dumping the UK back into recession. This would mean more cut backs and redundancies, less money to spend in the economy which then leads to more people unemployed and on and on.

But how does that affect your mortgage?

Well if we agree that it is very unlikely that the Bank of England will choose to increase the base rate for the foreseeable future it means that we can start to plan again. We can re-arrange a current mortgage to suit the current climate. A few months ago a tracker rate would have left you open to potential rate increases whereas a fixed rate, albeit higher, guaranteed your monthly payments. If we do not believe rates are going to increase anytime soon, or certainly not by very much, then this allows us to consider the variable, cheaper options again with a view of switching to a longer term fixed deal when the economy starts to get back on track.