

## **Borrowers should prepare for a new cycle of mortgage hikes by the main banks.**

Banks are poised to embark on a cycle of fresh mortgage rate rises, borrowers have been warned.

**Note : Below are extracts from an article published by The Irish Independent (11th November 2022) as referenced below.**

Weston and Collins (2022) report how the main banks will not be able to hold out for much longer and will soon start to consider passing on the current cycle of ECB interest rate hikes:

Bank of Ireland announced yesterday it was increasing its new fixed rates by 0.25 percentage points with immediate effect. This followed a 0.5 percentage point rise from AIB to its fixed rates.

Permanent TSB is expected to announce higher fixed rates of between 0.25 and 0.5 percentage points as early as next week.

Broker Michael Dowling said the banks were adapting a “softly-softly” approach to rate rises at the moment, but the pace of rises will start to pick up in the months ahead. Mr Dowling said the three main banks would not be able to hold out for much longer after the European Central Bank (ECB) rate rose to 2pc after three record rises since the summer.

The three main banks are able to absorb the higher ECB lending rates for now, as they have millions of euro in household deposits.

They are paying depositors little or nothing in interest on these, but are getting paid 1.5pc by the ECB for leaving these funds with it.

But Mr Dowling said pressure is set to bear down on the banks to start giving savers decent returns. “If the banks have to pay savers higher rates they will have to recoup the money by imposing higher mortgage rates,” he said. This would mean the current “softly-softly” approach to mortgage rate rises would change and the pace of mortgage rates would pick up.

“There is no doubt the pace of mortgage rate rises will pick up,” he said.

(Weston and Collins 2022)

The Central Bank here, according to Weston and Collins (2022) is warning that there are more rate hikes expected from the ECB next month and potentially next summer, and there is also the threat of persistently high inflation if we continue to see increases in energy prices and wage demands:

The ECB has imposed three jumbo increases in its key refinancing rate, with another mega rise likely next month, with the possibility of another rise in June.

Central Bank deputy governor Sharon Donnery confirmed as much yesterday, when she said consumers should brace for further interest rate hikes, particularly if energy costs or wage demands push prices higher.

“What is clear at the current juncture is our current rate rising cycle still has some way to go,” she said in a keynote speech to the Nevin Economic Research Institute.

She also warned that gas “supply cuts could further spike wholesale prices, including for the winter of 2023”. While the Central Bank believes inflation will ease next year, an energy supply shock or rising wage demands could keep inflation higher for longer, Ms Donnery said.

Her comments came as Bank of Ireland is to increase the interest on its fixed-rate mortgages for new customers by 0.25 percentage points. The Bank of Ireland’s new rates will be effective immediately for new borrowers and switchers.

It means the bank’s stand-out rate of 1.9pc for those borrowing more than €400,000, with no cash back, will rise from 1.9pc to 2.15pc for new borrowers and switchers. However, the new rates will not affect existing BoI customers who are coming to the end of a fixed rate.

They will still be able to lock in at the rates that have been in place before the latest hike. There is no increase in variable rates.

Tracker customers automatically face higher interest in line with the three record rises announced by the ECB in the last four months. The move comes after AIB pushed up its fixed rates by 0.5pc in the last few weeks. Bank of Ireland will allow those who already have approval for a new mortgage to get the rates in place up to now, provided they draw down by December 9.

This move to give those in the process of getting a new mortgage, or switching to it, four weeks’ notice is in line with what AIB did. It comes after Finance Ireland was heavily criticised for initially announcing a rate rise that hit those in the process of drawing down a mortgage.

Bank of Ireland customers on existing fixed rates will not be affected by the latest rate rises.

(Weston and Collins 2022)

## References

Weston, C. and Collins, S (2022) 'Bank of Ireland to increase its mortgage rates', *Irish Independent*, 11 November. Available at : <https://www.independent.ie/business/personal-finance/property-mortgages/borrowers-should-prepare-for-a-new-cycle-of-mortgage-hikes-by-the-main-banks-42135722.html>

(Accessed 12 November 2022).

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