

Mortgage costs

The continuing rise in mortgage costs underlines my message that the rise in rates is mainly to do with the Bank of England. Last autumn they signalled rises to come, put up rates and started big bond sales to drive the price of UK government bonds down. The problems with pension funds overcommitment to bonds via LDI funds helped trigger an even sharper sell off. Mortgages went up.

This time round the Bank has again signalled the need for higher rates and is busy selling bonds off to keep prices down. There is not the same LDI complication yet mortgages have gone up again as have bond yields. Be in no doubt that rates are rising and bonds are falling because that is Bank of England policy. It means large losses for taxpayers on all those bonds the Bank bought up at very high prices. It also means a hit to homebuyers when they have to refinance their mortgages. It is the price the Bank is charging them for its own inability to control inflation earlier.