John Gaulton

Independent Financial Advisors

jgifa.co.uk

Out and About in the Financial World

Welcome to our newsletter sharing items that we feel may be of interest to you, our clients, as well as your family and friends.
If you read anything of interest and we can be of further help please don't hesitate to give us a call.

What the Bank of England interest rate cut to 4% means for your mortgage and savings

While the 0.25 percentage point cut was widely predicted by financial analysts, the Bank of England's Monetary Policy Committee was split, taking two rounds of voting to make the decision for the first time.

While the cut might spell good news for mortgage borrowers, it won't be received well by savers, as it might bring bank and building society savings rates down.

The cut is the fifth since August 2024, with interest rates having fallen 1.25 percentage points from their 5.25 per cent peak. The last decision, on 19 June, was a hold. The next decision is on 18 Sept.

What does this mean for mortgage borrowers?

The decision to cut the base rate to 4 per cent will be music to mortgage borrowers' ears, as a trend of falling interest rates tends to bring down mortgage rates over time.

Those on tracker mortgages, which move with the base rate will see an immediate cut in line with the 0.25 per cent reduction.

But while we are likely to see some small fixed rate reductions in the coming days, the decision won't lead to big mortgage rate falls straight away for borrowers looking for new fixed rates. This is because lenders usually base their mortgage pricing on the longer-term trajectory of interest rates, rather than reacting to individual base rate decisions.

For many homeowners, a rate cut delivers no immediate benefit. Most borrowers are locked in to fixed rate deals of two, three or five years, during which time their payments will not change.

What next for mortgage rates?

Nicholas Mendes, mortgage technical manager at John Charcol, thinks the cut may give lenders more confidence to lower rates further. 'A quarter-point cut won't move the mortgage market dramatically, but it does keep the downward momentum going, Lenders are likely to trim rates further to stay competitive, especially with some already pricing in another cut before the end of the year.'

Markets are currently forecasting one further cut by the Bank of England before the end of the year, which could mean interest rates reach 3.75 per cent by Christmas.

Mortgage rates have been trundling down of late. For those with the biggest deposits or equity, the lowest two-year fix is now 3.73 per cent while the lowest five-year fixed deal is 3.86 per cent.

Cont.

What does this mean for savers?

Now that the base rate has been cut to 4 per cent, it is all but certain savers will see the best savings rates plummet. The base rate affects how much interest savers can earn on their money. In general, savings rates rise when the base rate is rising, and fall when it is falling. Those who keep their cash in easy-access accounts are most at risk of rate cuts.

What next for savings rates?

If the base rate falls to 3.75 per by the end of this year, as markets are currently predicting, it is forecast that easy-access rates will fall below 4 per cent for the first time since the summer of 2023 and fixed-rate bonds will fall to just above 4 per cent.

The best one-year fixed-rate bond currently pays 4.5 per cent. This is down from a high of 6.2 per cent in October 2023.

Andrew Hagger says: 'I think there's slight a chance we may see one further 0.25 per cent cut in November or December - leaving the base rate at 3.75 per cent.'

'If this is the case, then come the end of 2025 I think the top easy access accounts, without restrictions, will be paying in the region of 3.8 per cent to 3.9 per cent with the best fixed rates around 4 per cent to 4.1 per cent for one year.'

What should savers do now?

People should keep a close eye on their savings, whether they are stashed in an easy-access account, fixed-rate account or an Isa. If your money is not working hard enough for you or earning interest at a rate of less than the rate of consumer price inflation, 3.6 per cent, you should consider moving it to an account paying a better rate.

Rachel Springall says: 'It is essential that savers do not wait around for too long to snap up the top rates on the market, particularly if they use their pots to supplement their monthly income. Cash Isas remain an attractive choice for savers, but in bad news the rates have taken a hit over the past year, with the average easy access Isa rate falling by 0.46 per cent, a similar drop to its non-Isa counterpart.'

While Andrew Hagger says: 'If you've got some spare cash that you don't need for a year or two, then locking some away in a fixed rate bond makes sense as fixed rates are unlikely to increase from their current levels for a good while yet.'

This is Money 7 August 2025

Gifts and exemptions from Inheritance Tax

Making a gift to your family and friends while you're alive can be a good way to reduce the value of your estate for Inheritance Tax purposes and benefit your loved ones immediately. But estate and tax planning is a complex area, so getting professional advice can help you avoid common mistakes when making a gift.

Following on from our last newsletter article on Inheritance Tax read the Money Helper Guide in full -

https://www.moneyhelper.org.uk/en/family-and-care/death-and-bereavement/gifts-and-exemptions-from-inheritance-tax

If you need help or advice call us.