THE
MORTGAGE
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FORUM

A Little Bit About SWAP Rates

Introduction

SWAP rates are talked about a lot more these days. When interest rates and economic conditions were stable, you heard less about them. But before the Financial Crisis of 2008, fluctuating SWAPs were the norm.

What Are Swap Rates

Swap rates are an agreement between two parties where they agree to exchange one stream of future interest payments for another, based on a specified principal amount.

This gives lenders the ability to create and price fixed rate mortgages.

A lender will pay the financial institution, that they secure the funds from, a rate that's large enough to mitigate the risks associated with offering fixed rate mortgages when the cost of borrowing is constantly in flux.

How Are They Calculated?

A swap rate is a rate based on what the markets *think* interest rates will be in the future.

If the markets believe interest rates will rise (or will not go down as soon as previously predicted) SWAP rates rise.

When this happens, mortgage lenders will need to think about increasing their own rates so that they don’t lose financially

Generally speaking, if swap rates go down, mortgage rates go down. If they go up, so too do mortgage rates. But product pricing is more complex than that, as lenders also use pricing to gain market share.

Current SWAPs

	Jan 24 2024	27 Dec 2023	25 Jan “023
1 year	4.87%	4.69%	4.22%
2 year	4.35%	3.98%	3.93%
3 year	4.08%	3.62%	3.71%
5 year	3.81%	3.28%	3.50%

Source: chathamfinancial.com/technology/european-market-rates

What Should You Expect in 2024?

SWAP rates will fluctuate in 2024, in my opinion. They will rise, they will fall.

It is all about market expectations about when the Bank of England Base rate may come down. And this is driven by inflations. Inflation is affected by many variables - including world events.

There remains market uncertainty so expect fluctuating rate changes and continued mortgage rate changes.

What Does This Mean For You

If you work for a lender, expect sudden rate changes at any time. So give yourself a buffer with your time to be able to drop things when required. And get to know your Products, Treasury and Capital Markets teams

If you don't work for a lender, the market fluctations has knock on effects as the ripples extend. Be ready for short term moves.

Be agile.

But stay true to your goals.

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