

1 January 2009

Base rate cut 'unchartered territory'

particularly frustrating is that it is evident that there is a pent up level of demand among first time buyers that, if released, could provide the stimulus needed to kick-start the housing market.

"If the major lenders commit to passing on this cut, and the Government suspends stamp duty, we could open the door to recovery."

Neil Young, CEO of property managers, Young Group, questioned the policy of rate cutting, saying: "Base rate cuts alone are no longer an effective economic tool."

Young pointed to lenders' unwillingness to pass on the lower rates in standard variable rates. He believes this is a particular problem with non-government funded lenders and that borrowers are aware that base rate cuts are likely to make little difference.

"Borrowers are increasingly savvy regarding the impact of base rate cuts and their focus is on availability of lending rather than base rate," continued Young. "The latest Young Index poll [of buy to let investors] has identified that only 12% of respondents expressed a desire for a

lower base rate, whereas 28% put the need for wider mortgage choice at the top of their wish list.

However, he also explained the fall does offer a degree of reassurance and stability, commenting: "This first MPC decision of 2009 is akin to the Bank of England giving its opening team talk of the season. Base rate is unlikely to fall much further, lenders know what's expected of them and the onus is now on them to go out there and perform." ● **The Bank of England's decision to cut its** base rate by half a per cent to 1.5 per cent in early January has received a muted response from industry leaders. A spokesperson for the National Landlords Association said: "The latest interest rate cuts certainly take us into unchartered territory."

The NLA joined industry leaders in explaining it is now vital the banks react positively, saying: "How the banks respond may well have a critical impact as to whether we're about to sail through a light recession or have to suffer a longer and deeper global

downturn.

"We are now seeing more and more buy-to-let mortgage products coming back into the market which should help those landlords looking to expand their portfolios over the coming few months."

Following The Bank of England Monetary Policy Committee's decision to cut the rate of interest to its lowest ever level, Peter Bolton King, Chief Executive of the Association of Residential Letting Agents (ARLA), believes the onus is not only on the banks but also the government, stating: "The fact is that without the major lenders passing on this cut, and without stronger commitment from the Government to fully address the problems of the housing market this cut is practically an exercise in spin.

"The MPC and the Government continue to pat themselves on the back while hardworking families across the country increasingly fear for their futures." King continued, "What is