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## The 8p-a-month mortgage

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***If the Bank of England slashes interest rates yet again tomorrow as expected, some homeowners who have interest only tracker mortgages could see their monthly mortgage payments drop as low as zero...***

Experts are suggesting that interest rates may fall to one per cent tomorrow, Thursday February 5<sup>th</sup>.

If this does happen, those mortgage holders who took out tracker mortgages in the summer of 2007 will have to pay virtually no interest on their mortgages.

If they took out a Cheltenham & Gloucester deal which offered a mortgage at 1.01 percentage points below the Bank's base rate, they will be paying no interest at all, save for eight pence a month which the bank will refund.

The eight pence is for 'technical reasons,' and comes as an embarrassing sign of the over generous mortgage terms offered before the credit crunch hit.

This token interest payment will only apply to those borrowers who have interest only mortgages as those on repayment mortgages will already have their principal repayments included in their monthly bills.

Those on fixed rate deals will miss out on the rate cuts for now, but may be able to reap some rewards and take advantage of the lower rates when their existing deal expires and they can agree a new mortgage.

However, before homeowners on good mortgage deals get too excited - lenders are warning them against complacency because property prices are plunging.

According to the Nationwide Building Society, house prices have fallen by 20 per cent and around 1.2million homeowners now have a loan which exceeds the value of their property.

Neil Young, CEO of Young Group, is concerned that further cuts in the UK's base rate will not have the impact that the Bank of England hopes.

"A further cut in base rate will benefit those lucky enough to be on tracker mortgages and some on standard variable rates, if the lenders opt to reduce their rates, but in total that's only around 35 per cent of mortgage holders."

Up to 65 per cent of borrowers will see no benefit and will not be in a position to change their mortgage for a more favourable product due to lenders' continuing restrictive lending criteria.

"The economy is crying out for liquidity but successive cuts in base rate have not made an appreciable impact on lenders' willingness to provide credit. Whether for purchasers and homeowners looking for mortgages or businesses seeking funding, lenders are still placing restrictive hurdles in their paths," he added.

As well as Cheltenham & Gloucester, other lenders that face the prospect of their borrowers paying almost zero interest include Bradford & Bingley, HSBC and Halifax.

A few lenders will be immune as they have safeguards known as 'collars' in place to prevent this from happening and to ensure that borrowers always have to pay interest.

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