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Bank of England interest rate cut unlikely to bring benefit

BoE rate cut unlikely to have effect

The Bank of England's decision to cut interest rates to an all time low of 1% will not have much effect on the property markets, according to experts.

It is unlikely to boost mortgage lending and what is needed is a huge injection of funds into the system so that people can start buying again, it is claimed.

Only borrowers on tracker mortgages are likely to see any benefits and other measures are needed if there is to be any significant change.

'It is doubtful whether it will create the conditions to achieve significantly more new lending. Rate cuts alone will not achieve this objective,' said Michael Coogan, director general of the Council of Mortgage Lenders.

'Today's cut in the base rate may provide a small boost to the current weak levels of confidence in the economic outlook, but this decision urgently needs to be supported by other measures,' said Royal Institution of Chartered Surveyors chief economist Simon Rubinsohn.

'There is still a real need to stabilise the economy and increase the supply of mortgage finance to ensure an orderly housing market,' he added.

Although the move is welcome and will reduce costs for a few homeowners it isn't going to have a dramatic effect, according Liam Bailey, head of residential research at Knight Frank.

'The Monetary Policy Committee is clearly trying to get mortgage providers to increase their lending activity. Rate cuts have should reduce the wholesale cost of funding, making loans and mortgages cheaper to both the lender and the borrower. Reducing base rates on the scale of recent months would normally help to boost the amount of new lending,' he explained.

'However, base rates at such historically low levels mean that the returns on savings have become negligible, discouraging large numbers of people from depositing money in banks. This lower cash flow is further discouraging banks from lending, exacerbating the problem the government is trying to solve,' he added.

Winkworth welcomed the decision but said the Bank of England still needs to do more to help restore lending levels. 'The rate cut today will help those looking to

commit to purchasing a property leading to a small improvement in the housing market, whilst increasing the number of people looking for bargains,' said Dominic Agace, Managing Director of Winkworth Franchising Ltd.

Halifax announced that it would pass on the full 0.5% cut to existing tracker mortgage customers from March 1. And it will reduce its SVR from 4.5% to 4% at the same time.

Lloyds TSB, which also lends under the Cheltenham & Gloucester brand, Nationwide, and Barclays' lending arm the Woolwich also said they are reducing their standard variable rate 0.5%.

But Neil Young, CEO of Young Group, specialists in providing property portfolio management services to private investors. said the cut would benefit less than half of those who have mortgages.

'The 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% of mortgage holders,' he said.

'Up to 65% of borrowers will see no benefit from the decision and are not in a position to change their mortgage for a more favourable product due to lenders' restrictive lending criteria,' he added.