



11 March 2009

Investment Specialist Fears Rate Cut Will Widen Gap Between Mortgage Offers

The decision by the Bank of England Monetary Policy Committee (MPC) to reduce the base rate by a further 0.5 percent will broaden the divide between the mortgage 'haves' and 'have nots' says Neil Young, CEO of the Young Group.

The move, coupled with the vote to begin quantitative easing, will see those with existing mortgage loans getting a benefit while others looking to secure a new mortgage still face hurdles that are not helped by a reduction in base rate claims Young.

He said: "Lower base rates are no incentive for those seeking new mortgages, as tough lending criteria mean they remain out of reach to all but those with significant deposits or equity."

"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."

His feelings were echoed by London estate agent Kinleigh Folkard & Hayward. A company spokesman said: "Borrowers with tracker mortgages will welcome the announcement that the interest rate has been cut as it will leave them with more money in their pockets.

"However, the low rate will not make saving more attractive, so savers may not put any more money into their savings accounts, or may cut the amount of cash they save in them.

"Lenders rely on their savings income to be able to lend and now that there's been a further cut in interest rates, there can only be a negative impact on the willingness and ability of banks and building societies to provide mortgage funding.

Liam Bailey, head of residential research, at Knight Frank believes the cut will improve activity in the long-term, but, like other recent cuts, will have little immediate effect.

He said: "With Northern Rock now committed to lending £14bn, and the Royal Bank of Scotland committed to a further £9bn, it is likely that mortgage volumes will begin to increase and loans will become available on less onerous terms.

Dominic Agace, MD of Winkworth Franchising Ltd, hopes that, short term, with more money available in their accounts, the banks will decide to lend more to individuals and help to increase activity in the housing market.

He said: "The further reduction in interest rates will encourage those with significant equity to purchase property, and is therefore welcome. However, those who can benefit from cheap money fixed for five years remain a relative minority in terms of the traditional property market.

RICS Chief Economist Simon Rubinsohn said: "The decision by the Bank of England to both lower the base rate and the start of the asset purchase programme is good news in the face of the relentless stream of poor economic numbers.

"With conventional monetary policy running out of steam, it is vital that the MPC is shifting its focus towards boosting the quantity of money in circulation. Although this is no panacea, it should over time begin to help boost confidence and support private sector spending.

"House prices look likely to fall further in the near term even though there are some signs that transaction levels may now be bottoming out."