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UK's Lower Base Rate Widens Divide Between Mortgage 'Have' And 'Have Nots'

UK's Bank of England Monetary Policy Committee (MPC) has reduced base rate by a further 0.5% and voted to begin quantitative easing, a less conventional economic stimulus to increase the money supply.

Neil Young, CEO – Young Group, believes its greatest impact will be to broaden the divide between the mortgage 'have' and 'have nots'. Those with existing mortgage loans will see a benefit but first time buyers or those looking to secure a new mortgage still face hurdles that are not helped by a reduction in base rate.

"The fall in interest rates is good news for those who already have a mortgage in place but is adding to inertia in the market. Lower base rates are no incentive for first time buyers, nor those seeking new mortgages, as tough lending criteria mean they remain out of reach to all but those with significant deposits or equity," commented Neil Young.

The current low interest rate regime is widening the gap between those with and without mortgages as increasing numbers of mortgage holders continue to benefit from unprecedentedly low rates.

"As more and more existing borrowers come to the end of fixed rate deals and transfer onto lenders' low standard variable rates, they will join those on tracker deals in paying less in mortgage interest," points out Neil Young.

By way of example, borrowers who took out 2 year fixed rate deals two years ago - and are at the end of their deal - are benefiting from standard variable rates that are lower than the fixed rate they had been paying.

Our research shows that in transferring from a fixed rate onto standard variable rate, these borrowers are achieving savings of around 40% on their mortgage outgoings; good news for owner occupiers and great news for investors who see an immediate increase in cashflow.

Neil Young continues, "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."