

20 March 2009

Gap to widen between 'haves' and 'have nots'

THE decision by the Bank of England Monetary Policy Committee to reduce the base rate by a further 0.5 per cent will broaden the divide between the mortgage 'haves' and 'have nots' says the boss of property management firm Young Group.

The move, coupled with the decision to begin increasing the money supply through '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

Neil Young, the firm's chief executive.

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 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."

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

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

Managing director of Winkworth

Franchising Ltd, Dominic Agace, 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."

Royal Institution of Chartered Surveyors 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 Monetary Policy Committee 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."