

Base rate cut could boost mortgage market



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Press Release Summary: Financial solutions company Think Money have welcomed the Bank of England's shock base rate cut to 3%, commenting that the mortgage market could benefit as a result – but also warned that some lenders may be slow to pass on the base rate cut due to the continued uncertainty surrounding the mortgage market.

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Press Release Body: Following the Bank of England's shock base rate cut to 3%, financial solutions company **Think Money** (<http://www.thinkmoney.com/>) have welcomed the news, commenting that firm action is more likely to encourage banks to consider cutting their interest rates accordingly. However, they added, there are still some factors that may prevent lenders from passing on the full 1.5% cut to their [mortgages](#) and loans.

The base rate cut, from 4.5% to 3%, is the biggest cut since the Bank of England lowered the rate by 2% in 1981. The base rate now stands at its lowest point since 1955.

Many economists had predicted an aggressive cut in base rates, but the extent of the cut was still unexpected. Most predictions in the run-up to the Bank of England's announcement pointed towards a 0.75% or 1% base rate cut – and only a few days previously, 0.5% seemed a more realistic figure.

A spokesperson for financial solutions company [Think Money](#) said: "It would seem that the Bank of England are acting based on Mervyn King's recent statements that the recession would be long and drawn-out, and rather than take the base rate down in small increments, they have 'bitten the bullet' and taken it down further than most people expected.

"Potentially, it's very good news for people and businesses looking for loans, but not such good news for savers."

However, the spokesperson stressed that as with previous base rate cuts, there is no guarantee that lenders will pass the full cut onto their mortgages and loans – although the extent of the cut could at least increase the impact on lenders' behaviour.

"There will still be a lot of uncertainty with regards to what will happen in the economy in the future, as well as some apprehension amongst banks as to how much they might lose from things like defaults on [mortgages](#) as the recession takes hold," she said.

"The base rate cut only affects how cheaply lenders can borrow funds from the Bank of England. It does not directly affect the LIBOR rate, which is the measure of how expensive inter-bank lending is. Since lenders rely heavily on borrowing from each other to fund their loans and [mortgages](#), they may well be slow to bring their rates down.

"That said, the Bank of England will have no doubt had this in mind when deciding on their base rate cut – and it may well be that such a large cut is sufficient to encourage some lenders to bring their rates down to more competitive levels."

However, a number of banks appeared to take defensive action even before the 3% base rate had been announced, with several lenders removing tracker [mortgages](#) from their product ranges on Wednesday

and Thursday morning, while others upped their interest rate margins on tracker mortgages.

“This may just be a temporary measure by lenders in order to avoid any risks in the short term,” the **Think Money** spokesperson said. “A number lenders have said they will be taking some time to think about their next step, so it’s possible that we will still see some significant interest rate cuts in the next week or two.”

The spokesperson was also keen to emphasise the importance of good mortgage advice. “With so much uncertainty surrounding what will happen with mortgage rates in the next few months, it often pays to speak to a mortgage adviser who understands the market. They should be able to point you towards the best mortgage deals for your circumstances, which could save you a lot of money in the long run.”

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Resources for editors:

Homepage: <http://www.thinkmoney.com/>

Mortgage site: <http://www.thinkmoney.com/mortgage/>

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page: <http://www.thinkmoney.com/mortgage/remortgage.asp>

Bank of England website: <http://www.bankofengland.co.uk/>

Web Site: <http://www.thinkmoney.com/mortgage/>

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