

# Base rate cut – impact on the remortgage market



Released on: December 23, 2008, 7:09 am

Press Release Author: [Thinkmoney.com](http://Thinkmoney.com)

Industry: [Financial](#)

**Press Release Summary: The Bank of England's decision to cut the base rate could be particularly welcome among people looking to remortgage, according to financial services provider Think Money.**



**Remortgage**

- ▶ Consolidate your debts into one affordable monthly payment
- ▶ Free up cash for home improvements
- ▶ You're coming to the end of your current mortgage



Press Release Body: Welcoming the Bank of England's decision to cut the base rate to 2%, financial services provider **Think Money** ([www.thinkmoney.com](http://www.thinkmoney.com)) highlighted the positive effect this could have on people looking for a remortgage.

*"Many people paying – or looking for – a mortgage will welcome the base rate falling to levels we've not seen in over 50 years," said **Melanie Taylor, Head of Corporate Relations at Think Money.** "However, we anticipate the greatest sense of relief will be among people coming to the end of their mortgage term.*

*"Primarily, this is because these are the people who are tied to a specific time period. Most people moving house or buying their first home will have a degree of flexibility in the timing of their move, but when a mortgage term expires, it expires. This is an absolute deadline – and before they reach that point, the homeowner should have decided whether they'll revert to their mortgage provider's SVR or look for a new mortgage deal altogether.*

*"To anyone in that situation, the base rate cut will come as a great relief, as it could make either option more appealing. In some cases, it could make all the difference between being able to stay in the house and having to sell it."*

However, as the Council of Mortgage Lenders (CML) has pointed out, lenders don't necessarily benefit from cuts to the base rate in the way that many people believe. As the CML website states: 'the cost of funds to lenders depends not on Bank rate, but on a range of other factors, including what they have to pay savers to attract deposits, how much it costs them to borrow in money markets, and the costs of holding capital and sufficient liquidity ... Far more important than the Bank rate in determining lenders' funding costs is the three-month London inter-bank offered rate (libor)'.

Nonetheless, the rate which the Bank of England charges lenders is still an important factor, affecting the entire monetary system: "Many mortgage providers passed the full 1.5% of November's cut on to borrowers on their SVR deals. Various lenders have already announced they will pass on all or most of this latest reduction too, making the thought of reverting to their SVR much more attractive.

"At the same time, this reduction in the base rate will make it easier for lenders to lower the interest rates they charge for new mortgages of all kinds, helping people [remortgage](#) at a more attractive rate."

But homeowners at the end of their mortgage term won't be the only ones to benefit from the base rate cut. "According to the Bank of England's November 2008 Inflation Report, around 7% of mortgagors are spending 35-50% of their pre-tax income on their mortgage payments - and 5% are spending 50%-100%. Given the historically high salary multiples we're seeing in today's mortgage markets, the ability to remortgage at a lower rate could make all the difference to the finances of many homeowners."

"Of course, there's always the question of Loan-to-Value (LTV), a particularly important ratio in today's economic environment: with house prices dropping and credit relatively scarce, lenders are reserving the best deals for people with LTV ratios of 60% or less. Even so, a base rate of 2% is indisputably good news for most homeowners with mortgages across the country, whatever their situation."

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

**Contact Details: Think Money Limited**  
**Pennington House**  
**Carolina Way**  
**South Langworthy Road**  
**Salford Quays**  
**M50 2ZY**