The secured loans market – a few facts

Released on: January 30, 2009, 6:46 am

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Industry: Financial

Press Release Summary: There are reasons the recent base rate cuts have not led loan providers to slash the interest charged on secured loans, as financial solutions provider Think Money points out.

Press Release Body: Following the recent spate of rate cuts, financial solutions provider Think Money raised a few points about the secured loans market.

Melanie Taylor, Head of Corporate Relations at Think Money: "In just three months, the Bank of England's base rate dropped from 5% to just 1.5%, prompting substantial changes in the mortgage market – but not in the secured loans market. Many people have questioned

this: if mortgage lenders can lower their rates, they ask, why are loans providers seemingly unwilling or unable to do the same?

"The answer lies in the differences between the mortgage market and the secured loan market. Both deal with secured credit and so depend heavily on trends in the housing market as well as the availability of credit, but the two markets are fundamentally different.

"First – and perhaps foremost – a secured loan is a second charge. If a property ends up being repossessed, repayment of the first charge (the mortgage) will always take priority over repayment of the second charge. So from the lender's perspective, a secured loan is simply more risky than a mortgage – and greater risk has always been accompanied by higher interest charges."

Committed to the principles of treating customers fairly, lenders will enter into possession proceedings only as a last resort, but the 'second charge' issue is still very much a factor in today's economic climate, with the Council of Mortgage Lenders predicting 75,000 repossessions this year, and no clear indication of when we'll see a recovery in the housing market.

"Second, it's clear that the Government's initiatives aimed at keeping people in their homes are focusing on mortgages, not secured loans. Government help is welcome, as it could help homeowners and limit the damage to the housing market, but this focus on mortgages does add to the difference between mortgages and secured loans, in terms of risk to the lender."

At the same time, the secured loans market is being adversely affected by the same issues currently plaguing the mortgage market – primarily, the shortage of wholesale funding and the ongoing drop in property prices.

"It's a common misconception that the base rate dictates the cost of wholesale credit, but this is simply not the case. As the Council of Mortgage Lenders has stated: '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'.

"Falling house prices, meanwhile, have made lenders much more cautious about granting either secured loans or mortgages. Most

analysts seem to expect prices to bottom out after falling another 10% or so this year, but there's no guarantee this will happen, or that the subsequent recovery in prices will be either immediate or rapid.

This explains why most lenders are reluctant to offer mortgages or secured loans which would leave the homeowner with less than 20% equity. After all, a property worth £200,000 today could be worth £150,000 this time next year. It's a worrying thought for the homeowner, but also for the lender, who might find a portion of their loan isn't actually secured against anything – at least, not until property prices rise again."

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Think Money specialises in finding secured loans for people with all kinds of financial backgrounds.

If you are thinking about getting a secured loan – or looking for loan advice – contact one of our expert loan advisers today.

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