

# News & Views



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## Considering interest rates

While increasingly desperate bail-out plans are devised for the global economy, the one thing on which the Government and the Bank of England have remained firm is UK base rates.

The Bank of England's Monetary Policy Committee (MPC) has repeatedly said the economy is not out of the woods on inflation although Governor Mervyn King has said he expects inflation to peak in the next couple of months.

Under normal circumstances, most central banks could not cut rates until inflation falls back. However, Kate Barker, a member of the MPC, has suggested the economic shock from the credit crunch has proved deeper and more enduring than expected. The credit crisis has destroyed investor confidence and commodity prices have already impacted consumer spending. GDP growth is now flat with a recession widely predicted. These are not normal circumstances. Therefore, on 8 October 08, a coordinated move by the US, UK and European central banks saw rates cut by 0.5% across all three areas. More is expected over the next 12 months.

The one remaining issue now is whether these cuts will feed through into the wider economy. The inter-bank borrowing rate, which affects mortgage rates, hit all-time highs after US Congress initially rejected the \$700bn bail-out plan. The situation in the bank lending market will need to be resolved before base rate cuts can provide the necessary boost to the economy.

### The benefit of advice

The mortgage market is highly competitive and lenders constantly bring out new deals. They are required to provide Key Facts and illustrations, but many can only provide information – they cannot give advice on whether their loan or another provider's is best for you. In the UK, residential mortgage advice is regulated by the Financial Services Authority. Advisers use their research skills and sourcing systems to keep up to date with details of all the latest mortgage products so they can find the best rates and deals - and explain which one will best suit your requirements. So, if you want someone to do the hard work, then see an expert.

Welcome to the latest edition of News & Views, our update on developments in the mortgage market.

If you would like to discuss any of the issues raised in this newsletter, please do not hesitate to give us a call.

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## The next move

Interest rates had been on hold for five months - and many were fearing the next move would be upwards. However, that was before the events of mid September changed the complexion somewhat. The Bank of England now puts the Consumer Price Index at 5.2% - almost three times its 2% target. However, UK GDP is zero (and may in reality already be negative), the oil price has fallen back and the housing market has completely stalled. Couple this with investment bank failures, the merger between HBOS and Lloyds and now the nationalisation of Bradford & Bingley: the outlook is bleak. Consequently, on 8 October, in came the Bank of England with a 0.5% cut.

## The vanishing mortgage market

It's a tough time to be a borrower at the moment. Until relatively recently, credit was cheap and easily available and mortgage lenders were all but fighting each other to win business.

However, the boot is now on the other foot. Since the credit crunch took hold a year ago, it has become increasingly difficult - and expensive - to borrow; banks and building societies have tightened their lending criteria and raised their rates, and the availability of mortgages has contracted sharply.

In its recent Credit Conditions Survey, the Bank of England has warned not only of a decline in the availability of mortgages, but also of a likely increase in the proportion of defaults by struggling homeowners. This heightened risk of default has spurred many lenders to review their lending criteria, making it more restrictive and reducing access for higher-risk applicants.

Consequently, according to the Bank of England's monthly tracking report, new mortgage approvals for house purchase declined to just 32,000 in August 08 (down from 115,000 in August 07), the lowest level since they started counting 15 years ago. Higher mortgage rates and falling house prices are deterring new buyers although some demand is still there from existing borrowers.

Faced with the end of discount or fixed rate deals, existing borrowers have been keen to find something new. At the same time, following the nationalisation of Northern Rock and its desire to reduce its mortgage book to repay the loan from taxpayers, many of those customers are pro-actively looking to move.

Several lenders have reduced access to their mortgages; and attractive deals have become increasingly rare, so any company offering competitive rates has been swamped with potential customers. The last straightforward 100% deal was withdrawn in May in order that that Bank could 'maintain high service levels'.

In an attempt to stave off some of the impact, the Bank of England has now cut interest rates to 4.50%. Longer term, banks and building societies are using this as an opportunity to clean up their lending books and emerge in better shape; however, in the immediate future, while we wait for confidence to be restored, both borrowers and lenders are likely to feel more pain.

**YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE**



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