

## **Cheap Rate Loans Under Threat from US**

*The sub-prime credit crisis in the US seems to be sending all kinds of mixed signals to UK observers. Some warn of credit cuts threatening the UK loans market while others say that the situation is different for Brits. But how are people looking for a cheap rate loan being affected?*

August 10, 2007 (FPRC) -- The reports coming across the atlantic regarding the US sub-prime lending crisis may or may not apply to us in the UK according to different experts, but could rising interest rates of our own mean the end of cheap rate loans in the short term?

The Bank of England has already increased interest rates 5 times since August 2006 and UK lenders have increased their lending rates accordingly with no personal loan in the UK costing less than 6% at the moment. Mortgage rates have suffered in a similar fashion, with current fixed rate deals looking far less attractive than arrangements on offer to those who took out a fixed rate deal two years ago.

The US housing market has seen similar price increases to the UK over recent years and lenders have been approving ever larger income multiples over longer terms to provide home buyers with the money they need.

All this has stretched the US lending system to the limit and the bottom has now fallen out of the sub-prime end of the market with possible further impacts to be seen towards the cleaner end of the credit spectrum.

In the UK, increased personal debt due to increased credit card usage is also a factor as it is in the US personal finance space. The use of larger loans to fund the closure of multiple smaller, more expensive loans is known as consolidation and is usually a popular tactic of borrowers with more adverse credit histories. It is these larger, more risky consolidation loans that will suffer initially if UK lenders pay heed to the situation in the US and start to rein in their sub-prime lending criteria before we start to suffer in the UK.

So what about the person with a clean credit record looking to find the cheapest loan they can? Well certainly we are some way off the crisis we currently see in the US, but as many of the big UK lenders are funded by the big US banks we may be nearer than we think.

Because of differences in personal credit ratings, rates on cheap rate loans are all relative to individuals. What may be the cheapest available loan for one person could look quite expensive for another, so that best way to find that ideal loan is to shop around and compare a mix of lenders. Only that way will a prospective borrower get a view of the market and understand which types of loans are available before they sign up. The developments in the credit markets happening at the moment may restrict the amount of money available for lending in the short term and to minimise risk lenders may start to adopt a more cautious approach and decide to restrict their sub-prime lending. But that should not impact the rates they lend at and in the US recently interest rates have started to fall, so the days of cheap loans may not be numbered after all.

### **Contact Information**

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