Homeowners Face ‘Challenging’ Financial Situation

Homeowners are coming under increased financial pressure, new figures indicate.

October 9, 2007 (FPRC) -- In research released by the Council of Mortgage Lenders (CML), both those making their initial steps on the housing ladder and existing property owners are seeing their mortgage costs account for an ever larger proportion of their expenditure, which may consequently impact upon their ability to service other constraints on their spending - such as tax bills and home loans.

As “affordability has continued to worsen” for consumers, the CML revealed that the typical first-time buyer is currently borrowing at 3.38 times their income - a figure unchanged from July. However, as the proportion of income being put towards interest payments by such people has surged to 20 per cent from the 19.7 per cent recorded three months ago, they could be struggling more to meet loans costs and other demands of payment.

Meanwhile, existing homeowners are shown to be taking out a loan worth 3.03 times their income, with just over a sixth (17.2 per cent) of their annual income going towards repayments. The council also showed that debt servicing burdens are at their worst for both first-time buyers and movers for some 16 and 15 years respectively. And with the CML stating that such affordability pressures could be set to worsen within the coming months, Britons may struggle even more in paying off loans.

Commenting on the study, Michael Coogan, director general for the CML, said: “Affordability clearly remains challenging but there may be some relief for borrowers with expectations of an interest rate cut, perhaps as early as November. We are set to have a very segmented market for some months to come. The sub-prime sector is still facing funding constraints, while mainstream fixed-rate deals have begun to get cheaper.”

However, Mr Coogan suggested that those with adverse credit histories, including those who may have taken out bad credit loans, are set for a surge in financial difficulties as mortgages for such consumers become more expensive. He also urged those who are concerned that they will be unable to make a loan payment to get in touch with their credit provider.

“As lenders move to price for the risk they are taking on, mortgages are set to become more expensive for customers who have poorer credit histories. Now is the time for consumers to look to improve their credit status to keep their borrowing costs as low as possible. If you face payment difficulties, please speak to your lender before you miss a payment,” he added.

For those concerned that they will be unable to meet mortgage costs, opting for a low rate loan as a means of consolidating various debts accrued may well be an advisable option.
Earlier this year, James Ketchell, from the Consumer Credit Counselling Service, revealed that evermore people are willing to apply for borrowing, through secured loans for instance, as they have lost the stigma of getting into debt while at university.

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