

Consumers 'Face Affordability Pressures As Mortgage Lending Falls'

Mortgage lending fell over the course of last month, new figures indicate.

October 23, 2007 (FPRC) -- In research carried out by the Council of Mortgage Lenders (CML) earlier this week, the amount of money taken out via this type of loan accounted for some 30 billion pounds during September, a decrease of some 12 per cent from data recorded during August. Although the council noted that there is usually a decline in lending between the two months, this shortfall usually stands at around five per cent. Despite last month's figure being up by some 2.5 per cent from the 29.2 billion pounds in September 2006, this rise was the smallest increase noted for two years.

According to the council, the easing in the mortgage market acts as a sign of "the expected consumer response" towards the five interest rate rises actioned by the Bank of England's monetary policy committee since August last year. Following the series of hikes, borrowers are likely to have seen the base rate of interest applied to home loans rising, thus increasing their level of monthly mortgage repayments. In turn this could also see them struggling to service other areas of their spending such as utility bills, loans, credit cards and overdrafts.

Commenting on the data, Michael Coogan, director general for the CML, said: "We have been expecting a slowdown in monthly lending levels in line with interest rate rises. In the coming months, we expect to see monthly lending levels dip below their 2006 levels for the first time this year as rate effects are exacerbated by the recent liquidity problems in the mortgage market."

Meanwhile, Simon Rubinsohn, chief economist from the Royal Institution of Chartered Surveyors (Rics), said: "Mortgage lending remains higher than the same period last year, yet recent months have seen a marked slowdown in lending volumes in response to the previous interest rate hikes, stretched affordability and the impact of the Northern Rock episode. The Rics expects activity to slow further into the new year." He added that 2008 is on track to witness a "subdued market and little or no change in house prices".

Despite such constraints on affordability already taking place, consumers could be on track to witness even further difficulties in paying off secured loans and other demands on their spending. Earlier this year, the Mortgage Advice Bureau revealed that those homeowners coming to the end of their fixed-rate mortgage contract could see their monthly repayments rise by as much as 25 per cent, which may impinge upon their ability to manage day-to-day finances. Rob Clifford, managing director of Mortgage Force, claimed that: "The payment shock for some people will be significant." He added that "not many people" will be able to manage such an increase. Those concerned about their ability to meet demands on their spending may wish to withdraw the equity built up within their property to use as a means of debt consolidation. By taking out such a form of cheap secured loan, consumers could find that they have more disposable income at the end of each month as they merge debts accrued across a number of sources into one low rate loan.

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