Mortgage Holders ‘Face Rise In Financial Pressures’

Moves by the Bank of England’s monetary policy committee (MPC) to increase the base rate of interest over the course of the summer led to a fall in lending for property purchase in September, new research indicates.

November 13, 2007 (FPRC) -- According to a study conducted by the Council of Mortgage Lenders (CML), the impact of the higher cost of repayments on personal loans and other types of borrowing resulted in some 12.7 billion pounds for the purposes of home buying to be issued in September. Consequently this figure was down on the 16.2 billion pounds noted during the previous month and the 13.9 billion pounds from September 2006.

The study also revealed that homeowners are coming under increasing financial pressure as the typical mortgage rate rose from 5.91 to 6.02 per cent from August to September. In turn this caused the CML to assert that the affordability of property has “worsened” for both first-time buyers and those already on the housing ladder, which in turn could impact upon their capacity in making repayments on secured loans and utility bills. Over the course of September, mortgage interest payments accounted for 20.4 and 17.5 per cent of income for people making their initial steps on to the housing ladder and existing homeowners respectively.

In addition, the company pointed out that borrowing from both groups fell during September, as some 28,400 loans were issued to first-time buyers during the month, down from the 34,800 recorded in August. Meanwhile, those already on the property sector took out some 52,400 loans, in comparison to the previous month’s total of 68,000.

Such financial difficulties were attributed to the eventual impact of the MPC’s decision to increase interest rates in both May and July. However, the effects of the recent credit crunch and stricter lending criteria by loan lenders were not due to impact home lending figures until October.

Overall, home loans for all purposes accounted for 30.6 billion pounds this September, up by 800,000 pounds from the 29.2 billion pounds recorded from the corresponding month last year. However, in August 2007 a grand total of 34 billion pounds was taken out. Meanwhile, other forms of lending, including buy-to-let, remained consistent over the course of August to September standing at 6.8 billion pounds - up by 5.3 billion pounds recorded during September 2006.

Commenting on the statistics, Michael Coogan, director general for the CML, said: “The data shows that higher interest rates are now beginning to slow the housing market, in line with our recently published forecasts. Looking forward, we expect remortgaging to continue to hold up as borrowers coming off fixed-rate deals look to refinance. However, market conditions may mean that mortgage customers see an increase in costs and the Bank of England’s decision not to reduce rates earlier this month will have disappointed many borrowers. Looking forward, affordability is likely to continue to constrain buying activity, which we expect to remain subdued.”

However, Mr Coogan asserted that the base rate has now reached its “peak”, while any moves by the MPC to lower interest rates “will help ease some of the pressure on household finances”. One way consumers could reduce levels of financial strain is by taking out a debt consolidation loan, in which money owed to numerous creditors and companies can be reduced into a single monthly amount. Earlier this month, James Caldwell, director of Fairinvestment, reported that those developing money management problems should be proactive in terms of getting back on their fiscal feet and reducing their expenditure.

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