

Lack Of Secured Loans Availability

A number of high-profile exits from the secured loans market in the past year have highlighted the ongoing effects of the credit crunch for both consumers and loans providers.

July 11, 2008 (FPRC) -- In a recent report, financial advisory firm MoneyFacts explained that seven major lenders have stopped taking applications for new secured loans since July of last year. However, it noted that the demand for these lending products remains as strong as ever. Secured loans allow people to establish repayment arrangements stretching over periods as long as 25 years, while unsecured personal loans tend to only allow people to enter a repayment schedule of ten years or less. As such, secured lending has proven particularly popular with people who wish to reduce their monthly outgoings as much as is possible. And with the continuing economic threat of inflation and soaring food, fuel and utility bills, doing so may be beneficial to a growing number of people.

However, the group indicated that a constrained lending environment and falling house prices have had a combined detrimental effect on the buoyancy of the secured loans market. For many firms, offering such products was said to have simply become an unviable business option.

Commenting on the problems facing secured loan providers, MoneyFacts explained: "They face the same funding issues as mortgage lenders and with house prices continuing to fall, lenders can no longer be sure that, if a consumer defaults on their loan, they will have enough equity in their home to repay the debt. If a consumer's home is repossessed, it is likely to be sold at a lower level than market value and once the first charge mortgage is repaid and legal fees etc are deducted, there is likely to be little left for the secured loan lender to recoup the debt owed to them."

The most recent major provider to exit the market is First Plus, which has announced that it will no longer accept secured loans applications from August 2008. MoneyFacts warned that if the current credit conditions have caused one of the UK's largest lenders to discontinue its secured borrowing product, it will be interesting to see how effectively other providers can weather the financial storm. It added that consumers should brace themselves against the possibility that there will be more high profile exits in the coming months, with the future of Barclays secured loans services brought under the spotlight. Loans providers still active in the market may continue to limit access and the number of products available, as well as increasing interest rates on the loans that are still offered, the group concluded.

Despite concerns about the overall health of the UK and global economy and a contraction in lending availability, it seems the inclination to spend is continuing. In a recent report published by Sainsbury's Bank, it was suggested that consumer expenditure on discounted items in summer sales could reach 7.89 billion pounds. The firm noted that such a figure amounted to an individual splurge of 305 pounds and 90 pence on items such as clothing, home furnishings and electrical goods.

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