

Bank of England Makes Cut

Bank of England has reduced the base rate 1 day ahead of its scheduled meeting...

October 9, 2008 (FPRC) -- The Bank of England's monetary policy committee (MPC) has made a 0.5 per cent cut to the base rate of interest at its monthly meeting, one day ahead of schedule and following an earlier announcement by chancellor Alistair Darling in which he urged the Bank to consider the needs of the consumer.

The MPC moved to drop rates from 5 per cent to 4.5 per cent. It was the first time it has decided to alter the base rate since April, when it made a 25 basis point cut. The last time a reduction of this size was made was in November 2001. Following on from the move, consumers could find that their banks drop the rates on a range of products including credit cards, personal loans and mortgages. However, it may mean that returns on savings also decreases.

After the announcement was made, commentators rushed to offer their support for the move, which was welcomed by the price comparison site moneysupermarket as surprising but decisive action. The group added that it seemed that the Bank had retreated in its longstanding battle against rising inflation and rushed to the aid of borrowers, who may soon see the benefit in falling variable loans rates. Indeed, it noted that 4.2 million mortgage holders with tracker products will surely welcome the news as it will bring a significant boost to their ability to put money aside.

"However, as a note of caution this is not a magic cure all and we wont see either the mortgage or the housing market bouncing back to where it was 18 months ago," the price comparison site added. "Sadly too much water has passed under that bridge to be ended by a quick fix. Lenders wont change their strict attitudes to risk just yet, and the cut may not filter through to rates for new borrowers and first-time buyers, so not everybody will feel the benefit," it said.

And while many commentators welcomed the move, a number of banks moved quickly to pass the rate cut on to customers, with Barclays, Halifax, Lloyds and Cheltenham & Gloucester among them. For existing customers, the rate cut will come into effect from November 1st, while Barclays will begin offering its lowered rate to new customers from tomorrow (October 9th).

Commenting on the development, Andy Gray, head of mortgages for the Woolwich, said that consumers should take confidence from the decision, which will help to bolster a stagnating housing market and help people who are managing to make their pay packet last the month.

When it met last month, the MPC held the rate at five per cent in order to keep inflation at bay. Following their decision, the Fair Investment Company pointed out that the group had probably stepped back from a cut in the hope that the recent rescue package designed to stimulate the housing market. For those who are encouraged to enter the market after today's announcement, taking advantage of personal loans may be worth considering.

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