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Saving & Debt: Base Rate Should Not Discourage Caution

With the base rate at an all-time low, financial solutions company Think Money has stressed the importance of maintaining a cautious attitude to personal finance, in terms of saving as well as taking on new debts.

May 13, 2009 (FPRC) -- Commenting on the recent spate of base rate cuts - and the resulting 0.5% base rate - financial solutions company Think Money pointed to the potential implications of the Bank of England's actions over recent months, and urged savers not to risk debt problems by turning their backs on saving.

"In the short term," a Think Money spokesperson began, "it's important to realise that many people - the vast majority of the country - haven't benefited from these cuts in any way at all. A full 50% of the UK's 11.75 million mortgages are fixed-rate deals, 40% tracker and 10% SVR (standard variable rate).

"Clearly, anyone on a fixed-rate mortgage won't benefit any more than someone who's renting their home. As for SVR deals, lenders aren't obliged to pass on any reductions, and many have passed on only part of these cuts. Even people on tracker deals haven't universally seen their interest rates drop by the full 4% since October, as many of those deals have come up against their collar."

In the longer term, there's the question of what lessons people will take with them once the recession is over. Many people on fixed-rate mortgages will be looking at the low rates on offer today, calculating how much they could save if they switched and comparing this against the cost of the early repayment charges they would pay if they left their current mortgage early.

"In future, they may be unwilling to sign up to fixed-rate deals - or at least reluctant to sign up to the longer-term fixed-rate deals which come with more substantial charges for early repayment.

"In other words, some may be tempted to sign up to a tracker or SVR deal the next time the base rate reaches 5 or 6%, believing that another fall will soon follow. There's nothing inherently wrong with variable deals, but they're not suitable for everyone: people whose monthly finances can only just cover their mortgage payment should think very carefully before committing themselves to a deal with an interest rate that could go up as easily as down. For people in that situation, erring on the side of caution - and taking a fixed-rate mortgage - could be far more sensible."

The other long-term effect of these base rate cuts, of course, could be in the country's attitude to savings. Now that the average interest rate on instant access accounts has plummeted to little more than 0%, interest is simply not keeping pace with CPI (Consumer Price Index) inflation - and for people who aren't paying variable mortgages, this figure is more relevant than the RPI (Retail Price Index) measurement.

"We would, however, stress that interest is by no means the only reason people should build up their savings. With or without interest, a savings account is its own reward, helping people cope with financial challenges without running into debt problems.

"Even so, the thought of watching savings shrink in real terms may be enough to put many people

off saving in a standard savings account. This could be terrible news: whether they stop saving altogether or feel they need to 'gamble' their money in higher-risk investments, they could be leaving themselves open to all kinds of debt problems in the future."

Resources for editors:

Think Money debt hompage: http://www.thinkmoney.com/debt/

About Think Money

One of the UK's leading financial solutions providers, Think Money is headquartered in Salford Quays, Manchester, and employs around 600 employees to deliver a comprehensive range of debt, loan and banking solutions. It defines its mission as 'To educate, rehabilitate and advise on all aspects of financial management'. For more information, contact Melanie.Taylor@thinkmoney.com (0845 056 6480) or visit the Think Money website at http://www.thinkmoney.com.

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