LIBOR could indicate mortgage market recovery

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Press Release Summary: Financial solutions company Think Money have said that the recent drops in the LIBOR could mark the beginning of a recovery in the mortgage market, but warned that the successful implementation of the Government's bank bailout scheme will be key to ensuring that rates drop further and activity within the mortgage market can return to normal levels.

Press Release Body: Responding to the news that **LIBOR** fell on Wednesday following the **European Central Bank (ECB)** and the **Swiss National Bank**'s $254 billion (£145.7 billion) injection into the wholesale funding markets, financial solutions company **Think Money** (http://www.thinkmoney.com/) commented that this could mark the start of a recovery in the mortgages and loans market, so long as the conditions remain in place for lenders to continue to do business.

Despite last week’s half-point base rate drop, which was aimed in part at encouraging lenders to offer lower interest rates on their mortgages and other credit products, three-month sterling **LIBOR** – the rate most banks base their mortgage rates on – has been slow to respond.

LIBOR reflects the willingness of financial institutions to lend money to each other – and therefore the amount of cash flow in the industry. As such, it affects the levels of loans, mortgages and other forms of credit they are willing to offer to consumers. In short, the higher the **LIBOR** is, the more expensive it is to obtain the funds necessary for lending.

But on Wednesday, **LIBOR** fell from 6.249% to 6.21%, following around four weeks of continuous rises - not a huge drop, but one that could indicate that banks may be becoming more inclined to lend to each other, following the first cash injections from the Government’s bailout scheme.

A spokesperson for **Think Money** said: “This is a small but encouraging sign that the mortgage market may be on its way to improved levels of lending. What’s more, it’s evidence that the first stage of the Government’s bailout scheme may be working, which is good news for the economy in general.

“The main obstacle to mortgage lending over the past year has been lenders’ unwillingness to take risks. That’s the main factor behind the short supply of mortgages on the market, and the reason banks weren’t lending to each other, hence the high LIBOR.

“The aim of the bank bailout is to artificially increase cash flow within the financial markets, which should then give lenders an incentive to start doing more business with each other and with consumers – and it would appear that it has worked, for the time being at least.

“What we will now be looking out for is whether the LIBOR will continue to fall, and by how much. If it can drop to a figure somewhere near the 4.5% base rate, we may begin to see healthy levels of mortgage lending taking place once again. But the continued success of the banking bailout scheme will be central to ensuring this can occur.”

The spokesperson added that although market conditions are currently difficult, there are still plenty of mortgage deals available. "We haven't seen a complete freeze in mortgage lending – just a tightening in lending criteria across the market. Lenders still need to be competitive to do business, so the deals are still very much there – it may just take longer to find the right deal.

"Despite the uncertainty in the housing market, now could be a good time for first-time buyers, since house prices are relatively low, and therefore mortgages are relatively cheap. If house prices do begin to rise again soon, it could prove to be a very good move financially."

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Homepage: http://www.thinkmoney.com/
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