

Loans market may benefit from extreme base rate cuts



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Press Release Summary: Financial solutions company Think Money have said that potential further base rate cuts suggested by some economists could greatly benefit the loans market, but warned that lending criteria may remain tight as lenders aim to protect themselves from any further damage from unpaid debts.

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Press Release Body: Financial solutions company **Think Money** have said that borrowers and homeowners stand to gain from the Bank of England's potential measures to tackle the economic crisis, but warned that tighter lending criteria may remain in place to avoid any repeat of the past year's trouble in the loan markets.

According to The Telegraph, two leading economists have said that the Bank of England may need to cut base rates to as little as 2% or even 1% in order to tackle the forthcoming economic crisis. That would make the base rate its lowest since the Bank of England was established in 1694.

Roger Bootle, managing director of Capital Economics and a former Treasury adviser, said: "It is critical to get rates lower - if the medicine is not working you have to use a stronger dose," he said. "[The Bank] needs to get rates down far and fast.

"They need to be pretty bold. The lowest rates have ever gone is two per cent. They could easily go lower than that now - why not? After all, the Federal Reserve dropped [US] rates to one per cent."

Meanwhile, Alan Clarke of BNP Paribas said that he expects the base rate to reach 2.5%, although it might be even lower. "One per cent or lower is not impossible," he added. "The important trigger is the labour market: unemployment over, say, eight per cent would be a disaster."

Although a base rate cut would theoretically help to lower interest rates on [loans](#), a spokesperson for Think Money said that the situation is not always that clear-cut.

"Any drop in the base rate potentially makes loans cheaper, because it reduces the amount of interest the lenders have to pay the Bank of England for borrowing the necessary funds," she said. "Therefore, lenders can offer loans to consumers at a lower rate while still making a similar profit.

"However, the main obstacle to that is LIBOR (London Inter-Bank Offered Rate), a measure of the rate at which banks are lending to each other. Ordinarily this shouldn't be too different to the base rate, but currently it's almost 2% higher - which means that some funds for loans and mortgages are still quite expensive to lenders.

"Drops in the base rate can encourage a lower LIBOR, but currently the uncertainty in the loans market is keeping the rate high, as well as prompting lenders to maintain their tight lending criteria. Both of these need to ease up before the loans market can return to normal - which is why extreme base rate drops to only 1% or 2% might be needed."

The **Think Money** spokesperson added that lending criteria is unlikely to ease to allow anywhere near the levels of lending seen during the

economic boom. "Lenders will feel they have learnt their lesson from the economic crisis and will look to protect their loans business by keeping their lending criteria high.

"It's possible that we could see numbers of secured loans return to near-normal levels, since the collateral attached to secured loans makes them a 'safer' type of loan from the lender's point of view. But in terms of unsecured loans, credit cards, overdrafts etc., lenders will probably continue to pay close attention to borrowers' credit history."

But the spokesperson was also keen to emphasise that loans are still very much available, and the availability will only increase as the market recovers. "Some people assume that loans simply aren't available anymore, but that's not the case – it can just take a little longer to find the right deal."

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