UK mortgages may be deeply affected by the Eurozone crisis. The government can and should do more to help

Nicola Hughes *argues that, amidst economic gloom and uncertainty caused by the Eurozone crisis, the government can do more to help mortgage-holders who are starting to feel the pinch of rising costs. Sensible steps to take include: safety nets for families who get into difficulty; action to stabilise the housing market over the long term; and providing good advice and information for consumers.*

After a brief spell out of the headlines, the news is once again rife with speculation about the future of the European debt crisis. The constant stream of downgrades, austerity measures and emergency summits leaves a grim sense of unease, no matter how well versed you are on the technicalities of the crisis or whatever your views on fiscal union.

The depth and scale of the current crisis are overwhelming in their enormity and complexity; the numbers are almost too big to comprehend. While no-one can predict exactly what the long lasting effects of the economic crisis in Greece, Spain, Italy and beyond will be, it is certain that there will be an impact on day to day life for ordinary families here in the UK, no matter how far our political leaders try to distance themselves.

One group that may feel the effects are the 8 million or so households in England who have a mortgage. Many homeowners have, so far, benefitted from historically low bank base rates and these low rates have helped to stave off a surge in home repossessions. Base rates are likely to remain low across Europe till 2014, but lenders can and will raise their own rates in order to absorb costs and pressures coming in from elsewhere. And while the base rate has remained flat, LIBOR – the now infamous rate banks use to lend to each other – has steadily risen. For some consumers, these factors have already contributed to a rise in standard rates and more cash going towards the mortgage each month. How prepared are homeowners to deal with any extra, unexpected costs, especially those who are already struggling to keep up?

With continued uncertainty, lenders are understandably jittery. With less money around, they can't raise the funds they need and those looking to buy for the first time or to remortgage may well find the cost of mortgages soaring. One economic commentator suggests that average repayments could creep up by over £1000 a year if the crisis worsens. For the generation of would-be buyers who already can't find lenders willing to lend, this is disheartening news. The flipside of low base rates is that you get less return on savings too, so gathering up a deposit is not getting any easier.

This crisis is, sadly, unlikely to solve itself overnight. But amidst economic gloom and uncertainty the government can do more to be prepared. Safety nets for families who get into hot water, action to stabilise the housing market over the long term, and provision of good advice and information for consumers would all be steps in the right direction. Action needs to be taken before the Eurozone crisis starts hitting the pockets of hard working families at home.

Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics. Please read our comments policy before posting.

About the author

Nicola Hughes *is a Senior Policy Officer at Shelter, the national charity for housing and homelessness. Nicola joined Shelter in 2008, and leads Shelter's policy and campaigning work on homeownership, including mortgage regulation, housing debt, arrears and repossessions. She also works on intermediate tenure, empty and second homes, property taxation and older people. Prior to joining Shelter, Nicola* *worked in a variety of roles in both central and local government, including Acas and DWP, and at the think-tank Demos.*

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