

## **Bank warns on mortgage defaults**

**The number of households defaulting on their mortgage payments is expected to rise over the next three months, the Bank of England has warned.**

Its gloomy assessment comes as it says the global credit crunch is likely to worsen into 2008, as banks become less willing to lend out funds.

The Bank's comments came as it said homes and firms found it harder to borrow funds towards the end of 2007.

Its findings may raise hopes of a further cut in interest rates.

The Bank's comments came in its latest quarterly Credit Conditions Survey, which covers the last three months of 2007.

It said banks were now less willing to lend because of the higher cost and reduced availability of credit.

### **Growth warning**

Both secured and unsecured household lending fell "due to lenders reducing their risk appetite", the Bank said.

**The credit crunch should push GDP growth to 2% or lower this year and next**

Vicky Redwood, UK economist at Capital Economics

It added that "recent financial market turbulence as well as expected changes in the cost and availability of funds, would point to lower credit supply".

The Bank last cut rates at the start of December, reducing them to 5.5% from 5.75%.

This was the Bank's first rate cut since August 2005, with its nine-member rate-setting Monetary Policy Committee (MPC) unanimous in their decision.

Vicky Redwood, UK economist at Capital Economics, said the findings of the survey indicated that both consumer spending and business investment were now likely to suffer, hitting the UK economy.

"Together with the delayed impact of previous rate hikes and the global slowdown, the credit crunch should push GDP growth to 2% or lower this year and next," she said.

Howard Archer, chief UK and European economist at Global Insight, said the Bank of England could now cut rates further as early as next week when the MPC meets for its January rate-setting decision.

"An undoubtedly weak survey, albeit expected," added George Buckley, chief UK economist at Deutsche Bank.