

METCALF MOAT UPDATE

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Advisers

Colin Moat
John Riley
Lee Taylor



METCALF MOAT

IFA LIMITED

*'Growing by
recommendation'*

Credit Crunch

Earlier this year I was helping my son prepare for his role of Mr Banks, in the end of year production of Mary Poppins.

Mr Banks' world is turned upside-down by a "run on the bank", the catalyst for which was his young son Michael wishing to feed the birds with his tuppence, rather than start an account.

I never expected to witness an actual run on the Northern Rock Bank several weeks later.

The catalyst for this being a lot more serious than a dispute over tuppence, but the panic and uncertainty which led to it are quite the same.

The demise of Northern Rock is down to the way it financed mortgages, and not how it invested money.

This is the key to understanding how borrowing will be affected

over the coming months and possibly years.

The reckless lending in the United States to people who had no hope of repaying their loans, collectively labelled as "sub-prime" has led to lending criteria in the UK on "sub-prime" borrowing being tightened dramatically.

Lending in the UK is regulated by the FSA, whose main focus since regulation began has been affordability. This has resulted in the mortgage books of UK lenders being far more robust than that of their American cousins.

However, the ability of lenders, such as Northern Rock, to obtain cash to finance new mortgages has become almost impossible or at best, much more expensive.

It is the latter point which I

fear will affect all borrowers for some considerable time to come.

The Bank of England Base Rate's next move will be down, the cost to lenders of lending money will mean fixed rates are likely to remain at current levels or could rise.

Under normal circumstances, fixed rates would be falling now, in anticipation of a Base Rate cut. But we are not experiencing normal circumstances.

For Mr Banks, the "run on the bank" caused him to re-evaluate his life, as he had lost his job. He discovered what we would now term "work life balance".

I hope we eventually are all able to take something positive from the current situation.

John Riley, Director.

WISHING YOU ALL A HEALTHY AND HAPPY
CHRISTMAS AND PROSPEROUS NEW YEAR FROM
ALL AT METCALF MOAT



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“RELEASE ME”

2007 marked the 40th anniversary of Engelbert Humperdinck’s famous hit!

Engelbert, aka Arnold George Dorsey, was born on the 2nd of May 1936. This makes him eligible for most equity release plans currently available.

Not that Engelbert probably needs such a plan, but he exemplifies his generation very well in that he is fit and healthy, still touring the world and still working!

Equity Release is not restricted to those who unfortunately find themselves in financial difficulty. We are seeing a growing number of clients who wish to maintain, or even improve their lifestyle into retirement with cruises, new cars, and trips to see relatives overseas in addition to home improvements and debt Consolidation.

Equity Release can cater for all the areas mentioned, but it must be approached with care.

There are an increasing number of products and providers to chose

from, but it is essential that the alternatives to Equity Release be explored. Downsizing, using existing investments, taking a standard mortgage and many other options exist.

As well as the alternatives, those contemplating taking Equity Release should consider the effect on their entitlement (if any) to means-tested benefits and the effects on their tax position and the possible loss of Age Allowance. They should also think about their life expectancy, long-term health and what may or may not be passed on to their beneficiaries.

We strongly recommend that people considering Equity Release speak with family and friends before proceeding. We also recommend that a Will be written or an existing one be updated.

A combination of under funded pensions, low annuity rates, demographic issues and pensioner debt along with high levels of equity in the housing stock will

make Equity Release an increasingly important way in which retired people fund their retirement.

With more lenders set to join the market, the products available and their terms and conditions will continue to improve with increased competition .

Drawdown, which enables people to withdraw funds as and when they need them, rather than having to take a large lump sum, has made a huge impact on the Equity Release market since its launch. What may be next?

You should think carefully about this before taking the next step, and to ensure that this action is the right one for you, you should ask an adviser at Metcalf Moat IFA to make a recommendation.

Remember too, that more than one plan is now available from the age of 55. So you do not have to wait until you are Arnold’s age before considering Equity Release.

O Tidings of Comfort and Joy

We like to provide our views at this time of the year, and my colleague John Riley has done so regarding the ‘credit crunch’. He has explained the effect this has had on the mortgage market, and I thought I would cover the effect the unravelling of the “sub-prime” lending has had on equities, and in particular the reporting of this by the media.

Why a primarily American problem has infected the world’s financial institutions, is due to this lending being packaged up and sold onto banks around the world. The details of this are well documented, however, the long-term effects are less well known and the market hates uncertainty. To quote the famous American investor Warren Buffett ‘nobody will know who is swimming naked until the tide goes out’.

The volatility in the stock market

has arisen from this uncertainty, and gives rise to coverage from such respectable people as the BBC news making hair-raising comments such as ‘...billions being wiped off peoples pension funds’. Statements like that which are unqualified are very misleading, and one suspects are for sensational impact only. In fact for the vast majority of people contributing to their personal pension, it will mean they are purchasing their investments at a far lower cost than previously, and that in 10 to 20 years when they get to retirement this could be a very

good thing!

Unfortunately, financial reporting seems to have gone the same way as most journalism and is confined to bad news rather than good. Would you be surprised to hear that the FTSE All Share over 1 year (to 28/9/07) was up 8.73% and the average UK Equity Income fund by 6.71%, and over 3 years (to 28/9/07) FTSE All Share was up 46.01% and the average UK Equity Income was up 53.06%. I don’t recall seeing that in the news! Which I am sure qualifies as ‘O tidings of comfort and joy’.

Colin Moat, Director.

