METCALF MOAT UPDATE

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Directors
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METCALF MOAT
IFA LIMITED

'Growing by recommendation'

Please note, Buy to Let mortgages and Commercial Borrowing are not regulated by the Financial Services Authority.

Holding back the years

Some might be familiar with the title, as it is a song from Mick Hucknall of the band Simply Red. There might be some who are aware that Simply Red last year embarked on their farewell tour. Those people who are avid fans of Mick Hucknall, may be aware that he was born on the 8th of June 1960, meaning he turned 50 in the summer.

So as Mick bids farewell and thinks about his retirement, he might be in for a bit of a shock, as from April 2010, the minimum retirement age increased to age 55, from age 50, overnight (well, from the 6th of April to be precise). So poor Mick now has to wait 5 years before he can touch his pension holdings. Had Mick been born just 62 days earlier, he could now be enjoying his Tax Free Cash lump sum and possibly be drawing a pension.

I wouldn't feel too sorry for him though, as I suspect he won't be short of monies other than his pension on which to live for a few years to come.

It does however, underline a point that 2010 was yet another for change for pension legislation, and with other changes on the horizon, 2011 is not likely to be any different.

The two significant areas for change this year have been on forced annuitisation at age 75, and the availability of full tax relief for high earners.

Looking firstly at turning 75, the new government announced an interim measure which changed the forced taking of pension benefits from 75 to 77, this interim measure came into force on the 22nd of June last year. Consultation is taking place to secure a more permanent set of legislation for taking benefits, but the sceptic in me says this will probably change again at some future point.

Those in the position of being high earners have had a massive cloud of uncertainty looming over them, in terms of what retirement provision they can put aside for themselves. The maximum amount that can be held in their pension's pots before some pretty hefty taxes are applied has dropped nearly 17% and the maximum amounts that can be contributed will drop by just over 80% in 2011.

At the time of writing this, the Treasury have announced a consultation with the pension industry about the possibility of allowing early access to pensions. If it happens it is likely to have some significant restrictions and only be available in certain circumstances, however it might begin to make some of those people sceptical about pension saving more inclined to give it consideration.

There is a massive savings gap in the UK and with people living longer and the baby boomers beginning to reach retirement, the percentage of people working compared to the numbers in retirement is shifting and this puts additional pressure on the state. I deduce from this that future state pensions are only likely to give people a poverty-like existence so the need for people to save for themselves is a real one.

There are some real positives in all this, as the reality is pensions still offer good potential tax saving opportunities and with the choices around taking benefits changing significantly in recent and future years, the increased flexibility should be welcomed by many of our clients who are looking at retirement or have recently taken some if not all of their benefits, or indeed those still saving! As usual, there is need for advice!

If you or those close to you, are concerned about the saving for retirement or retirement options and want to consider them with independent advice, please give me or my colleagues a call.

Lee Taylor, Director

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Fixed Rate Mortgages Increasing!

At the time of writing, the Monetary Policy Committee (MPC) once more have voted to maintain the base rate at 0.50%.

This is despite Consumer Price Inflation (CPI) being at least 1% above the Bank of England's 2% target rate of inflation, since January 2010.

It has now reached 4% and in the opinion of Bank of England Governor Mervyn King "Inflation will rise sharply in the first half of this year before falling back next year". This increases the likelihood of the Base Rate increasing in 2011, possibly as early as August.

We are already seeing Fixed Rates **increasing**, due to a steady increase in Swap Rates, the interest rates at which lenders lend money to each other and on which Fixed Rates are priced.

With the likelihood that Fixed Rate products will continue to increase, spurred on by the growing expectation that the Base Rate will increase, now would be a good time to consider switching away from a Variable Rate or a Base Rate Tracker.

The Bank of England Base Rate has been at a level of 0.50% since April 2009, which has lead to very competitive Fixed Rate mortgages being available. It must be emphasised however that these generally benefit new and existing mortgage clients, who have a substantial amount of deposit or equity.

Along with offering competitive Fixed Rates, lenders have also increased the level to which they will offer these rates. At the beginning of 2010 a loan of 75% of the value of a property would generally be the ceiling of lower rates; this has subsequently increased to 85% of "Loan to Value" ratio, illustrating a much more positive approach by lenders.

The overall percentage of products available through independent advisers such as ourselves has also increased, and currently stands at 85% (according to the FSA's Mortgage Market Review) of products currently available.

Although we welcome the level of optimism now evident in the mortgage market, as independent advisers we still mourn the loss of flexibility and common sense underwriting. Where once we would meet with a client to discuss their situation and then source their options and present their case, the risk averse approach and tight criteria by lenders is still very much "computer says no". However, light is beginning to appear at the end of the tunnel. We are now finding more and more lenders are willing to consider applications from clients whose situation may be outside of normal lending criteria.

Buy to Let

One area of lending which is showing an unexpected level of improvement in terms of availability of products and competitive rates is Buy to Let. According to Moneyfacts, there are currently 292 Buy to Let products available on the market, compared to 266 in July.

The average Buy to Let variable rate has also improved, moving down from 4.84% to 4.67%, while the average Fixed Rate is now 5.55%.

Confidence is returning to this part of the market due to two main factors. Buy to Let mortgage arrears have shown signs of improving, while demand for let properties is increasing.

The number of tenants looking to rent has reached an eight year high, as demand far exceeds supply. According to the Association of Residential Letting Agents (ARLA), the levels of demand are the highest it has recorded since its survey began nearly a decade ago and are more than double the figures seen at the peak of the market in 2007.

Ian Potter, Operations Director or ARLA, commented "The market has bounced back in a way that no one could have predicted, to levels of demand that have not been seen since the last century".

Meanwhile, Countrywide Surveyors conducted a recent survey which confirmed ARLA's finding by stating that "Tenant demand reached new highs in the third quarter of 2010". However, availability has fallen, meaning on average 5.8 tenants are vying for each rental property. John Hards, Co-Managing Director of Countrywide Residential Lettings, stated "The private rental sector is the only viable option for a growing number of people. This demand has naturally led to landlords confidence increasing. In a recent survey by LSL Property Services, it found 48% of landlords think now is a good time to invest in property and this issue will only intensify, especially in the wake of Government cuts to the social housing budget".

The obstacles our clients face – strict criteria; limited or non-existent Interest Only lending; restrictions on lending into retirement and no uniformity amongst lenders regarding the calculation of affordability – means 2011 will not be an easy time to locate a competitive mortgage, but we welcome a challenge!

John Riley, Director