METCALF MOAT UPDATE

YOUR FIRST CALL FOR INDEPENDENT FINANCIAL ADVICE

5 YEAR FIXED RATE MORTGAGES - FROM JLS TO ONE DIRECTION

Funding for Lending Scheme (FLS)

FLS is widely credited with bringing down mortgage rates since its introduction on the 13th July 2012. FLS Incentivises banks and building societies to boost their lending to the UK 'Real Economy' - the part of the economy that is concerned with actually producing goods and service; as opposed to the part of the economy that is concerned with buying and selling on the financial markets. It has done this by providing funding to banks and building societies for an extended period, with both the price and quantity of the funding provided linked to their lending performance.

In 2008, JLS were runners up in The X Factor, a **5 year fixed rate** could be secured at **5.99%** - if the boys in One Direction wanted a **5 year fixed rate** today, the most competitive rate is currently around **2.99%**.

The Bank of England and the HM Treasury announced an extension of the FLS on the 24th April this year. **This extends FLS to the end of January 2015.**

Why now?

With an effective end date to the FLS being announced, Variable Rates (see chart), despite their flexibility, are not looking quite so attractive and Mark Carney, the Governor of the Bank of England when addressing the Treasury Committee stating that in the event of the housing market becoming overheated, that the Central Bank has a 'considerable range of policy options, that would start with more intensive supervision of mortgage lending' - **fixed rates may start to go up**.

Variable Rates

Lender	SVR
Barclays	4.99%
Halifax	3.99%
HSBC	3.94%
Lloyds TSB	4.00%
Nat West / RBS	3.99%
Santander	4.74%

Nobody said it was easy

Securing a mortgage in 2013 is not as straightforward as it was in 2008.

Lenders - despite an ageing-working population, the State Retirement Age being pushed back and the abolition of a set retirement age by employers - have made lending beyond 'normal retirement' very difficult. Borrowing on an interest only repayment basis is almost impossible to secure, unless you have assets which match the level of borrowing or a loan to value (mortgage expressed as a percentage of the value of the property) which is very low - 50% or less.

Lenders interpretation of income varies enormously. For the self-employed is it Dividends and salary? Dividends, salary and retained profit? Or net profit only?

For the employed, does the lender deduct pension contributions? What percentage of overtime, bonus is considered and over what timescale?

Despite all of this, we believe it is an excellent time to take a Fixed Rate mortgage - with a little help of course!

What does the future hold for the Base Rate?

On the 7th August Mr Carney stated that the Base Rate will remain at 0.50% (unless unepmloyment falls below 7%) - commentators and analysts are suggesting 2016 could see the Base Rate rise.

In late 2008, however, Mervin King, the then Governor of the Bank of England was still concerned with global inflation and had earlier advocated taking a fixed rate mortgage. From the end of October that year, until march of 2009 (5 months) the Base Rate fell from 5% to 0.50%...

We cannot predict what might happen - only a handful called the Credit Crunch correctly. What we can do however, is if you are looking to review an existing mortgage or need a mortgage to purchase a new property, then one way or another we will try to fix you...

JOHN RILEY, DIRECTOR

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THE LOWDOWN ON DRAWDOWN

This guide aims to give an overview of the key aspects of Drawdown - it is not an exhaustive guide to its features and risks.

DRAWDOWN IN A NUTSHELL

KEEP YOUR FUNDS INVESTED + DECIDE HOW MUCH OF YOUR PLAN TO USE TO PROVIDE YOU A **TAX-FREE LUMP** SUM AND AN **INCOME**

WHO MAY DRAWDOWN BE SUITABLE FOR?

- Clients who want to take funds from their pension without fixing an income through an annuity,
- Clients with larger pension funds (typically at least £100,00 after any tax-free lump sum, depending on individual circumstances,
- Clients who want to keep their pension fund invested (and accept that their investment is not guaranteed, its value can go down as well as up and income will fluctuate).

WHAT TYPES OF DRAWDOWN ARE THERE?

Capped Drawdown

Limits the amount of annual income you can take

The maximum amount is around 120% of how much you could get if you bought a single life, level annuity instead

Flexible Drawdown

There is no limit to how much income you can take at any time

Offering greater flexibility

WHO CAN TAKE FLEXIBLE DRAWDOWN

Flexible drawdown is available to individuals who meet HM Revenue & Customs requirements, which include:

- Have a secure pension income from other sources of at least £20,000 per year,
- Are aged 55 or over (could be lower if due to ill health or for dependents),
- Do not contribute to this or any other pension scheme in the tax year you have started Flexible drawdown,
- Are not building benefits within as a Defined Benefits Scheme such as a final salary scheme offered by an employer.

BENEFITS OF FLEXIBLE DRAWDOWN

- Offers a more flexible way to take income from your plan,
- You can take as much or as little as you like - even your whole fund as a single payment if you wish,
- There is no limit on the number of Withdrawals in any given year.

THERE ARE THREE WAYS OF USING DRAWDOWN

Full

Useful if you want to take as much as possible from your plan - in particular the maximum tax-free lump sum

Partial

Useful if you want to take a smaller amount from your plan - and are keen to access a tax-free lump sum

Phased

Useful if you're happy to combine your tax free lump sum and Drawdown income to meet your total income needs

Here are some examples of how this could work based on a plan value of £200,000:

Full

Amount used to meet your needs
£200,000
Tax-free lump sum taken
£50,000
Amount left for Drawdown pension fund
£150,000
Max income capped
£9,540 per year
Max income flexible
The whole Drawdown pension fund value

Partial

Amount used to meet your needs
£50,000
Tax-free lump sum taken
£12,500
Amount left for Drawdown pension fund
£37,500
Max income capped
£2,385 per year
Max income flexible
The whole Drawdown pension fund value

Phased

Amount that you wish to take per year
£10,000
Amount used to meet your needs
£33,591
Tax-free lump sum taken
£8,398
Amount left for Drawdown pension fund
£25,193
Max income capped
£1,602* per year

* The £10,000 required in year one is made up of £1,602 maximum income plus £8,398 tax-free lump sum. To provide £10,000 of income in year two, further funds will need to be used to provide another tax-free lump sum and additional drawdown income.

WHAT ARE THE RISKS OF DRAWDOWN

Unlike annuities, where all of your pension fund is used to buy a guaranteed income, with Drawdown your pension fund remains invested and this presents certain risks:

- The value of your pension fund placed in Drawdown can fall as well as rise and is not guaranteed. By taking income from your fund, together with any charges, you are reducing its value and potential for future growth - particularly if you take high levels of income and/or investment returns are poor. This means that the value of your fund could fall below the amount that you originally placed in and could even run out sooner than illustrated.
- Income is not guaranteed, will fluctuate and depends on investment performance. If you take maximum income through Capped drawdown this may not be sustainable over time as you may quickly erode your pension fund.