

**COPY FOR YOUR
INFORMATION**

Dear ,

Interest Rate Changes Effective from 1st April 2009

Once again, following the recent announcement by the Bank of England of a further reduction in the Bank Base Rate (BBR) by 0.50% to 0.50%, we have reviewed our Mortgage and Savings interest rates.

Information for Savers

Our savers will be acutely aware that the latest BBR change is the sixth consecutive monthly downward change by the Bank of England. Twelve months ago, BBR was 5.25% - it is now 0.50%, a reduction of 4.75% since 7th February 2008 and the lowest rate since records began more than 300 years ago.

We are also very aware that such dramatic changes in market interest rates have a significant impact on our savers' income and, therefore, we have done our best to limit the damage of such low rates.

With effect from 1st April 2009, our gross savings rates will be **reduced by 0.30%** across the board with the exception of the **Cash ISA account which will only be reduced by 0.15%** to 2.85% tax free (for investments above £3,000) ensuring that it still remains one of the most attractive Cash ISAs in the UK. We will continue to accept transfers in from other Cash ISA managers, until further notice. As with all our accounts, our terms and conditions are clear and transparent, so the rate you see is the rate you get. Remember, with the Holmesdale you have until 31st March 2009 to top-up your Cash ISA subscription for the 2008/09 tax year or, if you have your Cash ISA with another ISA manager, make sure you check the rate of interest you are receiving. You can transfer your entire Cash ISA balance to the Holmesdale (current and previous years' subscriptions) and retain all your tax benefits. Contact our Savings Department by e-mail (savings@holmesdale.org.uk), or telephone the number below if you require one or more Cash ISA Transfer In forms or an application form.

Finally, to illustrate how we are protecting our savers, if the Society had applied the full BBR reductions over the last 12 months, the interest rates on our accounts would have been between 1.50%-2.20% lower than the average rates we are now applying which would have effectively prevented many accounts receiving interest.

Information for Borrowers

As explained in my previous letters to members, the Society is only able to lend the funds it receives from its savers, as we have no dependency on the wholesale funding markets which themselves have caused part of the current funding crisis being experienced by UK lenders.

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...continued **Interest Rate Changes Effective from 1st April 2009**

In order to maintain competitive savings rates, we are limited on how far we can reduce our mortgage rates as it is essential that we maintain our financial strength by balancing, as best we can, the needs of both our savers and borrowers.

Therefore, with effect from 1st April 2009 (1st May 2009 for one month accounts), all borrowers with Standard Variable Rate (SVR) or SVR linked mortgages will benefit from a **reduction of 0.15%** in their interest rate which will **reduce SVR to 4.69%**, a rate which, we believe, is still competitive. Once again, our terms and conditions are clear and transparent with no hidden catches or unexpected charges. Moreover, because we are balancing our interest rate structure carefully, we do have funds available for lending and have not suspended lending as has happened elsewhere in the financial industry.

Existing borrowers with tracker style mortgages will, in accordance with the terms and conditions of their accounts, benefit from the full **0.50%** interest rate reduction from 1st April 2009.

Your Board is very aware of the tolerance we are asking of our borrowers at this difficult time. We are therefore hopeful that this rate change may be the last for a while, as there needs to be a period of reflection in which the impact of the recent BBR rate changes, together with the Government's Quantitative Easing programme, can be assessed. The Board is committed to treating all our members fairly and, therefore, *we will be undertaking a review of all mortgage interest rates, independent of any Bank of England rate change, by 1st July 2009.* If, at that time, interest rates have become more settled, we will assess the viability of improving the interest rate charged on SVR and SVR linked mortgages and act accordingly, in line with our ethos as a mutual lender.

Update on Financial Services Compensation Scheme (FSCS) Liability

May I take this opportunity to thank so many of our members who supported the stance we have taken over the proportionality of the FSCS payment, particularly those who have signed up to the Number 10 petition or contacted their local MP urging them to support us.

Although we fear that our valiant efforts may fall by the wayside, we have at least made our point strongly, and perhaps future FSCS charges may be more fairly apportioned against the risk taken, as opposed to the current system measured against savers' (retail) deposits.

At the time of writing, the Society expects to have to account for 2 years' worth of the 3 years' charge being made by the FSCS which will result in a reduction in our profits of approximately £200,000 for the year ending 31st March 2009 by way of a first provision for this unfair liability.

Information for Savers and Borrowers

The present economic circumstances remain a challenge for us, but the policies adopted by the Society demonstrate that we are not taking the situation "lying down". Whilst our financial results this year will be under pressure, we remain active and strong and prepared to do the best we can for our members. The competitiveness of our savings accounts, particularly the Cash ISA, is evidenced in the Best Buy tables and we are currently handling high numbers of applications from new members which is not only positive for all our staff, but also for the future of your Society.

Thank you for your loyal support in these troubled times. You can rest assured that, as a mutual society, we will always put your interests first and continue with our risk averse attitude to business thereby protecting you, as any financial institution should. You are safe with the Holmesdale and we continue to value your custom.

Yours ,

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