

January 2009

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INFORMATION**

Dear ,

Interest Rate Changes Effective from 1st February 2009

Following the recent announcement by the Bank of England in which the Bank Base Rate (BBR) was reduced by 0.50% to 1.50%, it has, once again, become necessary to review our Mortgage and Savings Interest Rates.

Background

Members will be aware from our previous letter in December of the substantial liability which the Government has imposed on all financial institutions in order to protect savers' balances which had been deposited in the failed banks. Since our last letter, the Financial Services Authority (FSA) has issued a formula to assist financial institutions in establishing the level of their individual liability under the Financial Services Compensation Scheme (FSCS). Unfortunately, the formula provided only gives an indication of the level of liability and is not final. However, it is clear, even at this stage, that the Government will expect the Society to contribute in excess of £300,000 to the FSCS which, inevitably, will have an effect on our future profits and the level of interest rates which we can pay or charge our members.

Notwithstanding this unfair Governmental levy, we remain optimistic for the future as we have always taken a prudent approach with our business affairs and we are therefore financially strong enough to weather this economic storm. Moreover, we are acutely aware of the need to protect our members as best we can in the light of these historically low interest rates – the lowest in the Bank of England's 315 year history. However, we can only do this by spreading the burden of the financial impact imposed by the Government across our entire membership. Unfortunately, not making changes to our interest rates is not an option as we wish to maintain our financial strength.

Our borrowers have benefitted from some very competitive mortgage rates for many years so, as a mutual organisation, we believe it is only fair for our borrowers to share some of the impact of substantially lower rates for our savers now. As a consequence, our non-Base Rate tracker borrowers will not benefit in full from the latest BBR reduction. Of course, when matters improve in the financial world we will do what we can to improve rates for all our borrowers again.

Having said that, we believe passionately in treating all our members as fairly as we possibly can, so the following changes have been specifically designed to satisfy the majority of our members and maintain our financial strength to meet our future liabilities under the FSCS.

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Information for Savers – Improvements to Terms & Conditions

With effect from 1st February 2009, the majority of our Savings Gross rates will be reduced by **0.40%** (i.e. not the full 0.50% BBR cut). In addition, the Society has introduced a range of account improvements as set out in the table below which should be read in conjunction with the enclosed double-sided *Interest Rates from 1st February 2009/Summary Box – Key Product Information* leaflet:

Savings Account	Terms to 31st January 2009	Changes from 1st February 2009
Cash ISA	60 days' notice of withdrawal	✓ 30 days' notice of withdrawal ✓ 0.30% (not 0.40%) reduction in Gross Rate
Easy Access	£500 Minimum Balance	✓ £10 Minimum Balance ✓ Balances up to £2,499.99 held at January 2009 rates
Regular Savings	£500 Minimum Balance £50 minimum monthly investment	✓ £10 Minimum Balance ✓ £10 minimum monthly investment
Young Saver	Available to residents of Surrey & Sussex or introduced by an existing HBS account holder	✓ Available to all UK residents ✓ January 2009 rates held
Home Saver	Available to residents of Surrey & Sussex or introduced by an existing HBS account holder	✓ Available to all UK residents ✓ January 2009 rates held
Charities Overseas Residents	(open) (closed)	✓ Balances up to £9,999.99 held at January 2009 rates

We believe our savings rates, particularly our Cash ISA, are very competitive when compared on a like for like basis with other branch-based accounts. If you currently have your ISA with another provider, then please compare the interest rate you are receiving against our new improved terms and remember that *we are happy to accept inward transfers from your existing provider on your entire balance* (subject to ISA Rules).

Information for Borrowers

Our **Standard Variable Rate (SVR)** mortgage will be **reduced by 0.15% to 4.84%**, in the majority of cases with effect from 1st February 2009. Subject to certain geographical restrictions, this product is still available to anyone wishing to borrow and it remains an uncomplicated product with no strings attached, or up-front arrangement fees as associated with so many other competitors' products.

All borrowers with **Tracker** type mortgage products will benefit from the **full 0.50% BBR reduction** in accordance with the terms of their accounts with effect from 1st February 2009.

Information for Savers and Borrowers

We hope that our members will feel that our decisions are fair given the current economic outlook. We remain a robust mutual society where the interests of *all* our members are central to our core values.

In a world of economic uncertainty, rest assured that we intend to uphold the values which have made us so successful over our nearly 154 year history; you can trust the Holmesdale Building Society to be there, whenever you need us, for fairness, safety, security and, of course, our friendly, down to earth approach to your financial needs. You need look no further than your very own local building society. Holmesdale Building Society is *your* Society.

Finally, I take this opportunity to thank all those members for your encouraging letters of support with regard to our recent decisions and the unfairness of the FSCS liability apportionment for building societies; this issue has now been raised in Parliament.

Yours ,

K.C. Morgan

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