

**COPY FOR YOUR
INFORMATION**

Dear ,

Interest Rate Changes Effective from 1st January 2009

As members will be aware, the Bank of England reduced its Bank Base Rate (BBR) by a further 1.00% on 4th December to 2.00% - a 57 year low, and a level at which all financial institutions have to make some very difficult decisions.

In part, this is complicated by the opposing needs of savers and borrowers, but also by the substantial burden which the Government has placed on all banks and building societies who are now required to compensate savers who have invested funds in the failed Icelandic banks and the Bradford & Bingley Bank.

Financial Services Compensation Scheme (FSCS) Liabilities

As a consequence of the Government's actions to protect savers' balances in these failed institutions, we, like all other banks and building societies in the UK, are required to pay substantial funds into the Financial Services Compensation Scheme (FSCS) over the next few years. At the time of writing, we are aware of the Society's estimated liability in respect of Kaupthing Singer Friedlander, Kaupthing Edge, Heritable Bank and Bradford & Bingley, but we await confirmation from the FSCS and the Financial Services Authority (FSA) relating to our liability in respect of Icesave. Regrettably, full details relating to institutions' FSCS liabilities have not been forthcoming, which has made our decision in setting new interest rates that much more difficult.

I can assure you that, as a mutual organisation, we have done everything possible to mitigate the impact of these compensation payments. Having said that, ultimately, the Governmental levy must be paid for by savers and borrowers, either by way of lower savings rates, higher mortgage rates, or a combination of both.

Although we feel it is unfair that our members have to bail out the banks which have followed much riskier business models than those used by mutual organisations, we have no choice, as the Government has decided to activate the FSCS to meet the liabilities of the failed banks and we are obliged to subscribe to the FSCS by our regulator, the FSA; we must pay or no longer be authorised to trade as a financial institution. However, on behalf of our members, I can assure you that we have made our feelings known on this issue in no uncertain manner, and our trade body, the Building Societies Association (BSA) continues to highlight the unfairness of the Scheme's implementation to the highest levels of Government.

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I mentioned earlier that we have done everything possible to mitigate the impact of these issues and we have concluded that, in attempting to protect our members and meet our liabilities, the following decisions should be made.

Information for Savers

All Gross savings rates will be **reduced by 0.75%** with effect from 1st January 2009. Once again, we have reduced savings rates by less than the 1.00% BBR reduction which means that our savings rates are now 1.00% higher than they would normally have been, had we implemented the full BBR reduction over the last three Bank of England changes. We believe our savings rates are now very competitive if you compare them on a like for like branch-based basis. Please check our rates against some of those being paid by our competitors with effect from 1st January 2009 and remember that, as a Society with almost 154 years' experience, we remain a safe and secure home for your savings.

Information for Borrowers

Our Standard Variable Rate (SVR) mortgage will be **reduced by 0.25% to 4.99%**, in the majority of cases with effect from 1st January 2009. Remember that (subject to geographical restrictions of the property being within Surrey, Sussex, Kent or Hampshire – not applicable to existing members) this product is still available to anyone wishing to borrow, and it has no arrangement fees as associated with so many other competitors' products. It is a very competitive product with no strings attached.

All borrowers with **Tracker** type mortgage products will benefit from the **full 1.00% BBR reduction** in accordance with the terms of their accounts with effect from 1st January 2009.

Information for Savers and Borrowers

As interest rates reach lower levels, it becomes more difficult to balance the needs of savers and borrowers, but we are conscious of our responsibilities as a mutual organisation. Hopefully, you will appreciate that our decisions were made to: lessen the impact of lower rates on our savers (remember that funds for our mortgages are produced solely from our savers' investments – we have no wholesale funding - so it is important to keep savings inflow); maintain a competitive SVR mortgage rate whilst at the same time building the margin between savers and borrowers sufficiently to meet our obligations to the FSCS.

The Holmesdale Building Society remains financially strong; we have high levels of liquidity (cash in hand) and well above average levels of capital (reserves) and therefore this places us in a better position to weather the financial storm which has enveloped the markets.

Thank you for your continued support and be assured of the same level of financial prudence and security which has long been the Society's hallmark. We will aim to keep any changes to Information for Members updated on our website at **www.holmesdale.org.uk**.

Although I appreciate this is not the most cheerful update, may I take this opportunity to wish you and yours a very Happy Christmas and New Year.

Yours ,

K.C. Morgan

KEVIN C. MORGAN
Chief Executive

kevin.morgan@holmesdale.org.uk

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