



BE SPOKE FINANCE

HIPs SHAKE & RATTLEd by Government 'N' its ROLE

Government, mindful to speed up the house purchase process and so slash the £350m wasted each year on failed transactions, introduced HIPs (Home Information Packs).

HIP's roots were in the EU 'Directive on the Energy Performance of Buildings (2003)' requiring an Energy Performance Certificate (EPC) to be provided for residential buyers and incorporated into the Housing Act.

The Act, enabling HIPs legislation for England and Wales, states that in most conventional transactions, residential property sellers must provide a HIP to potential buyers, with effect from 1st June 2007.

In June 2006, Government published its regulations for the contents of the packs, exceptions from the HIP pack duties and provisions for approval of the Certification Schemes, for the ever so slowly growing numbers of Home Inspectors (HIs) to undertake the mandatory Home Condition Reports (HCRs). The not inexpensive training

for which, was considered by individuals and corporates to be a price worth paying, to underpin their HIPs business propositions.

Then, in July 2006, Government did one of its infamous (and not disappointingly spectacular) U - turns declaring HCRs to be now voluntary...but maybe mandatory in the future! The 'icing' of HCRs and creation of "HIPs Lite" had a profound effect on the fledgling HIP industry, as it reeled back to the drawing board, licking its financial wounds.

So why did they do it?

Some pundits claim it was simply because Government realized there wouldn't be enough qualified HIs to conduct the inspections, but the EPC is still a mandatory component of the HIP thus requiring the same number of HIs.

Others perceive a Government fear of fuelling a market "big bang" - potentially harmful to consumers.

The move has been interpreted by

some as Government lacking the confidence of its convictions in HIPs against special interest groups.

The up side of this U - turn, is that "HIPs Lite" will be cheaper to produce, benefiting both providers and consumers.

Meanwhile, the HIPs industry holds its collective breaths in the hope that the lady, Yvette Cooper (Minister for Housing and Planning), is all done turning...on this one at least!



Welcome

Information is useless, unless you turn it to your advantage.

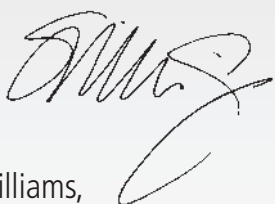
Welcome to the third edition of "BEoutSPOKE onFINANCE", MMG's quarterly newsletter.

The mortgage market's still an exciting place to make money, through investment in property. Especially if you know what you're doing and have the right experts striving to support your aspirations.

Our team of experienced specialists constantly monitor the latest industry trends. Their aim is to enhance your experience, by identifying opportunities that we believe can enable this to be achieved. We call this 'Bespoke Finance'.

These pages will give a flavour of the highlights, insights and even some anecdotes, from probably the most vibrant contributor to the UK's economy.

So why not take five and read on. It could be the most profitable thing you do today!



Stewart Williams,
Managing Director.

My Word It's My Bond!

In the old days, people buying another home, be it for owner occupation or to let, had to pay the seller, or the builder in the case of a brand new property, a deposit on exchange of contracts. These deposits were typically 10% or at best, from the purchaser's perspective, 5% of the price.

This sum of money would sit languishing in a solicitor's client account until being handed over to the seller, with the balance of the purchase monies, on completion.

Three things are immediately apparent here.

Firstly, the builder couldn't have access to the deposit funds, so this was of no benefit to him, other than, if the buyer welched on the deal, he got to keep the deposit and it acted as a "good faith" thing.

Secondly, the purchaser of a brand new bespoke residence, costing say £1m+ might have had to find £100,000 in cash at exchange and forego interest on it from then till completion, conceivably a year or more later, in the case of a substantial house.

Thirdly, an off-plan investor was seriously restricted as to how many properties they could buy from a developer, if they had to put down a cash deposit on each.

There was no choice, but to live with the way it had always been...until now!

Nowadays, the answer to these problems and more is the **MMG Deposit Bond**. Hailed already as the

future of residential property purchase transactions, by investor clients and developers alike, the Bond supplants the requirement for a cash deposit at contract exchange. Instead, the purchaser merely buys a modestly priced **MMG Deposit Bond** which the vendor, upon agreeing to accept it, is guaranteed payment of the deposit equivalent sum on completion.

The buyer's only cash liability at exchange is the modest premium for the Bond. They no longer have to unprofitably tie up potentially serious sums of money.

Canny developers are pricing the premiums into the product, marketing with a feature of "no cash deposit to pay" and standing the premium cost themselves...what a brilliant sales pitch!

With no deposits to find, the off-plan investor can now acquire more properties from a developer, who in turn, on having a greater percentage of 'pre-sales' can, through one of MMG's identified lenders, get 100% (not a typo error) funding of land purchase and development costs with no equity share, no exit fees and at margins tantalisingly below those charged by the usual "big 5" high street suspects for only 75% gearing!

Imagine the potential for growing your business, if you're a developer, or those of your developer clients by introducing them to MMG, if you're a professional adviser!

"Good buy! miss der Bond" opportunities at your peril" - quips Stewart Williams.

What's HOT, where's HOT and what's NOT

MMG have obtained clarification from Her Majesty's Revenue and Customs (HMRC) on a number of property related investment issues.

What determines a new build off-plan property's classification as "residential"?

Direct investment in residential property is only allowed via a Genuinely Diverse Commercial Vehicle (GDCV) i.e. no single or connected investor can own more than 10% of the whole portfolio. SIPPs and SSASs can directly "develop" off-plan properties that they wholly own, provided they are disposed of before they become classified residential.

HMRC have confirmed they will classify a property residential when it has been connected to all the basic services normal for that type of property. Where the main house is finished and the garage, for example, has still to be built, HMRC will consider the property residential.

Remember SIPPs and SSASs can't "trade" and if they develop an off-plan property purely to sell when completed, the local Inspector of Taxes may consider that the pension scheme was trading and tax it accordingly. If a SIPP or SSAS is contemplating developing an off-plan or derelict property, the views of the local Inspector of Taxes should be sought beforehand, regarding the "trading" issue.

Hotels?

Acquisition of 100% of a hotel by a SIPP or SSAS is allowed and acquisition of a hotel room is also allowed, provided it doesn't carry any occupancy rights. Timeshare e.g. a hotel room or other holiday property, that does bestow occupancy rights, will be classed as taxable property and be taxed at 55% or 70%.

A building currently classified "residential" but to be converted on purchase to commercial use?

If on acquisition, a building is suitable for residential use, HMRC will classify it as a residential purchase and tax it accordingly, even if the intention is immediately to convert it to commercial use. For example, a house that's to be converted wholly to offices will be taxed at 55% or 70% on purchase. HMRC assert that; "the legislation does not depend upon the future intention for use of the property, as doing so would have introduced unwarranted uncertainty as to where tax charges arose".

If the "house" on purchase is derelict or unoccupied and unsuitable for residential use, it will be classed as commercial and there will be no tax charges.

If a property has yet to obtain planning permission for

conversion to residential, it is classed as commercial. When it has permission, it will be re-classified residential as soon as it meets the criteria described earlier.

If there's a residential element to a property, the whole property will be classified residential. For example, a property having two rooms used as a dentist's surgery and the rest as residential will be wholly classified as residential.

Will investment in property via a GDCV be classed as trading?

HMRC have confirmed that if the GDCV is an unquoted, non-trading company, or consists of members investing directly in the portfolio via a syndicate, it will not be deemed "trading".

Interest Rate Commentary

The Bank of England's MPC fulfilled most economists' prediction, when in the absence of more decision enabling data, base rate remained at 4.75%. There's still a growing sense that a follow-up quarter-point rise in borrowing costs could come as early as November, given that economic growth has picked up and inflation, already above the Bank's 2% target, may climb further. This could reinforce a changing perception about the balance of risks on inflation, as there is a 50:50 chance of inflation exceeding 3% in the next 6 months – a level requiring an explanation to the Government! BUT some analysts still claim that the Bank is too optimistic on growth and a further hike this year is unwarranted.

European Central Bank, despite holding at 3% at the end of August, has given strong hints at a potential rise at the October meeting and even the Bank of Japan recently increased rates from zero to 0.25% as the worry, for central banks globally, turns to inflation again. Our view still sees the last increase and the potential of one further rise, as minor short-term adjustments rather than the start of a new phase of rising interest rates.



Can we be of service?

“Get me to the church on time!”

Our client wished to purchase a former house of worship, planning permission for conversion to residential use of which, had been sought several times and always refused. Notwithstanding this, the client required mortgage facilities to support a successful bid for the property at auction...which was imminent!

During the process of pre-contractual enquiries, lawyers acting for the client discovered a condition that if, within 80 years after the purchase, planning permission was granted for further residential or commercial development, the church would have a claim over 50% of the uplift in valuation – ouch! Inspired (pun intended - Ed).

Having been hitherto in ignorance of this condition, MMG dutifully alerted the proposed lender to the pre-emption clause and they promptly declined the mortgage application.

In this case, our client needed a lender who would allow self-certification, due to the complexity of income streams and one that would also allow the client to retain their existing property until sold and for them to be able to repay a lump sum from the new loan, once it had sold. This considerably narrowed down the number of accommodating lenders. This despite the fact that neither the client's lawyer nor the valuer were fazed by the pre-emption.

Now if there's one thing our specialist consultants love, it's a challenge! The tenacious Nicola Smalley, not only sourced a lender that would accede to all of the above, but that would also give our client a 4.69% 2 years fixed rate, on a self-certification basis and allowing them to overpay by up to 10% per annum without any interest penalty - all at 85% loan to value, on a purchase price of £400,000. They even accepted a re-type of the valuation report, obtained for the lender that originally shied away, saving our clients a potential fee of several hundreds of pounds.

Oh yes, the names of the clients who bought the church?...Neil & Fay.

Services

- Lending to Trusts or to Trustees on Behalf of Trusts
- Lending to Limited Companies or other SPV's
- Restructuring Borrowings Secured on Estates
- Portfolio Management Services
- Executive Advisory Services
- Cross Collateral Charging
- Commercial Lending
- Development Finance
- Finance for Pension Funds (SSAS/SIPP)
- Overseas Advisory Services
- Lending Against Investments/Deposit Monies
- Equity Release & Lifetime Mortgage Arrangements

Please note that not all of these products or services may or may not be regulated by the Financial Services Authority (FSA)

Flat, baroque and busted...
well if the bank had its way!

An accountant, of new acquaintance, contacted us for our help. His client wished to demolish a dilapidated mock-baroque style building and replace it with 8 flats. The site was already owned and the build costs would be around £600,000. It was anticipated that sales would be £1.2m, when fully sold. A really superb deal for a lender...their high street bank's response?...a maximum loan of £500,000 at 2% over base!! We were being asked if we could better that...does night follow day? From our growing panel of development finance lenders, including several building societies, MMG were able to achieve £600,000 funding at 1.5% over base.

A Problem Shared

A client recently had the opportunity to buy shares for £50,000 in their employer's unlisted company. A year beforehand our consultant Paul Shovelton, had placed the clients in a market leading discounted tracker mortgage at 4.24%. As there was still a year remaining, to obviate any penalty, the client did not wish to add the sum to their mortgage. A colleague of theirs, who had "researched all this" - suggested that our client should approach their own bank. They did, only to find that the maximum unsecured facility would be £25,000. Time on the offer was now getting short!

Mistakenly thinking MMG only specialise in mortgages, as opposed to our total "Bespoke Finance" proposition, they had not contacted Paul earlier. What a pleasant surprise awaited them when they did seek his help. Not only was he able to arrange the total funding and fast, but also at only 2% above bank base rate, with a 1% added arrangement fee. Far more attractive terms than their own bank had proffered at merely £25,000 funding.

Naturally, word went round the firm like wildfire. Even the "researcher" availed himself of Paul's expertise.

MMG - Mortgage Management Group, Pear Business Centre, Pear Mill, Lower Bredbury, Stockport, Cheshire SK6 2BP United Kingdom
tel: +44 [0] 8451 181818 fax: +44 [0] 8451 181819 email: advice@mmg-uk.com **web: www.mmg-uk.com**