Consolidating your assets
In light of the recent Bank of England base-rate reduction, Thomas Dickson shows how you can use the situation to your benefit.

On February 5 2009, the Bank of England cut interest rates from 1.5 per cent to just 1 per cent. Never in the institution’s 315-year history had such a low been reached, and considering that the interest rates stood at 5 per cent last October, it is evident that drastic action has been taken to head off the worst economic crisis since the Great Depression.

Combined with the Government’s tax cuts and the weakened position of the pound, this latest reduction should provide ‘considerable stimulus’ to the UK economy, according to a statement from the Monetary Policy Committee (MPC).

Dental practice finance
At some point over the last few years, many principals will have borrowed money at 1 per cent-1.5 per cent above this base rate and will now be enjoying savings of thousands of pounds per month. For example, principals who borrowed £750,000 at 1 per cent above base rate last year would have been paying £5,750 per month. Now, those monthly interest rate payments would be down to £1,250, constituting a saving of £2,500 per month.

The MPC pointed to a severe and synchronised downturn, partly characterised by job cuts and weakness in consumer spending, so this saving in interest payments could well be crucial when it comes to keeping private practices afloat, especially if patients start deferring treatment, or stay away altogether.

Essential Money has noticed that the experience of many clients, including private, NHS and mixed practices, is that turnover has not been affected and the appointment book is still full. In fact, in addition to patient payment plans like Medenta, which helps to spread the cost of treatment over several months, the new rate reduction provides several new opportunities.

For instance, now might be the time to borrow some money cheaply and expand the practice with an additional surgery – or even buy another practice. Alternatively, the monthly savings could enable you to safely put some money aside in high interest savings accounts, pay off your residential mortgage or increase your pension. Or, you could enjoy having the extra cash, and simply spend it!

It is worth noting, however, that while most clients hardly need the cautionary advice, you should never forget that all markets move in cycles, and you can never be sure what is around the corner. Also, caution in the past is not necessarily being rewarded today; those dentists who sought financial security by fixing some or all of their loans have actually taken the expensive option, with rates as low as 3.5-3.5 per cent. Other lenders committing to this include Skipton Building Society, Lloyds TSB, Cheltenham & Gloucester and Halifax (part of the Lloyds Banking Group), Woolwich (owned by Barclays) and Abbey, Government-owned Northern Rock, however, appears to be consistently failing to pass on the rate cuts, with a

Residential mortgages
Following the latest base-rate cut, some mortgage lenders announced that they would be passing it on in full to their SVR (Standard Variable Rate) customers. The Government is putting pressure on lenders to reduce their standard variable rates in line with the cut, and lenders such as Nationwide, Britain’s biggest building society, have been quick to commit to passing on the full half-point base rate cut to borrowers on variable rate deals, to rates as low as 3.5-3.5 per cent. Other lenders committing to this include Skipton Building Society, Lloyds TSB, Cheltenham & Gloucester and Halifax (part of the Lloyds Banking Group), Woolwich (owned by Barclays) and Abbey, Government-owned Northern Rock, however, appears to be consistently failing to pass on the rate cuts, with a
Standard Variable Rate of 4.84 per cent.

If you are nearing the end of an introductory rate with your current lender, and have between 25 per cent-40 per cent equity in your property, there are some fantastic fixed rates available (now as low as 3.49 per cent). Those of you not in this position could be better served by staying on the standard variable rate, at least for the short term.

This is also the first time that a mortgage lender has been forced to reduce the interest on their home loans to zero. If you are one of those 1500 customers who took out a tracker mortgage pegged at 1.01 per cent below the base rate with Cheltenham & Gloucester (C&G), then you will be paying no interest at all on your home loans from March 2009.

Savers are hit

There is a downside to these cuts. The attempt to revive the economy by slashing interest rates is leaving pensioners and those others dependent on savings with a lower standard of living. Savers – who outnumber borrowers – have seen their interest payments drop by a massive 85 per cent since July 2007.

Figures published by the Bank of England in January 2009 showed that interest paid on notice accounts, tax-free ISAs and bonds in December 2008 was at its lowest since records began in 1995. The average return on instant access accounts was just 0.81 per cent.

Many self-employed dentists have significant cash savings, in preparation for their annual tax bills in January and July. Those with a mortgage as well can benefit from offset mortgages, which are an excellent way to take advantage of additional savings, because the money is guaranteed; the rate is higher than usually offered by deposit accounts, and no tax will have to be paid.

The economy and house prices

The UK economy officially shrank by 1.5 per cent in the fourth quarter of last year. This was the biggest contraction in nearly 30 years. Yet the Government is confident that the latest announcement, previous rate cuts and the weakness of the pound will combine to have a ‘significant impact’, eventually aiding the economy.

A recent report from the Halifax announced that house prices had risen by 1.9 per cent unexpectedly in January 2009, ending 10 consecutive months of falls. This brought hope that the worst was over in terms of declining house prices. However, Nationwide reported that house prices had fallen by 1.5 per cent over the same period, and the Halifax itself warned that the rise was likely to be a statistical blip because the market remained under severe downward pressure.

Conclusion

Although the economy does appear to be spiralling downward uncontrollably, with investors likely to be nursing some heavy stock market losses, the recent base-rate cuts are on the whole excellent news for the majority of dentists. This year 2009 really could be the year to use the savings made on any borrowings to take full advantage of some under-priced assets.

Thomas Dickson, director of Essential Money Limited, formerly a partner of Money4Dentists, has a wealth of experience in advising the dental industry. Beginning as a financial advisor, Thomas recently launched Essential Money, providing expert independent financial advice dentists throughout the UK can rely on. For a copy of the Merlin Stone report which explains the attractions, risks and ethical issues of the above investment or for further information, please contact Essential Money on 0121 685 5060 or email thomas@essentialmoney.co.uk.