Winter 2005/6

the mortgage

The mortgage bulletin from HD Consultants

Covering mortgages and much more...

Your mortgage is likely to be your largest monthly outgoing. So if you shop around for clothes, holidays, insurance and electronic goods, why not apply the same principles to your mortgage, and **consider remortgaging?**

So many choices...

» There are clearly lots of people who've woken up to the benefits of **remortgaging.** According to recent research conducted by tickbox.net on behalf of Abbey, almost half of all homeowners have remortgaged at some point, with 52 per cent of them having done so in the past five years.

For those people who have not yet switched lenders, it is clearly top of their agenda, with just under two-thirds (65 per cent) saying they would consider doing so this year.

The research also shows that almost one-fifth (19 per cent) have remortgaged to borrow more money against their property. This could cover home improvements or buying a car.

Then there are those who prefer to invest in property, rather than a pension, and remortgage their own home to purchase buy-to-let property.

For others, it may be a way to consolidate debts, possibly accumulated via credit cards and personal loans, although if you do this, you need to remember that restructuring the cost of your repayments comes at a price - namely possibly extending the repayment term of your debt and the total overall interest paid.

Of course, whatever you do you need to be sure that your lender is happy for you to use the funds in the way you want to.

For most people, though, **remortgaging is done to get a better rate** and reduce the monthly cost of the mortgage repayments.

Increasingly popular route

Figures from the Council of Mortgage Lenders (CML) also bear testament to the increase in the number of households remortgaging.

In the first half of 2005, remortgaging

➔ (contd on page 2)

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Welcome....

to this newsletter, which covers some of the key issues of the moment that affect mortgages and mortgage-related products - and sets out how it **may help you.** In this issue we cover **remortgaging, shared ownership mortgages, buy-to-let** tips, why you should consider **life cover,** and information on how residential **property purchases** could soon form part of a pension plan.

■ **HD Consultants is an appointed representative of Personal Touch Financial Services Ltd, which is authorised and regulated by the Financial Services Authority.**

■ **Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on your mortgage.**

Jump in Together

There's the bad news below. And then there's the good news that many lenders are bending over backwards to help first-time buyers by allowing them to buy with friends and siblings, or with parents acting as guarantors.

Shared mortgages

With some first-time buyers now clubbing together with friends or family, many lenders will take a multiple of the first two incomes plus the third, and some will lend considerably more.

This is because loans to groups of friends are no different from mainstream loans, but the lender is likely to look for evidence that the borrowers have thought through the implications and have taken legal advice.

For instance, if a group of four friends buy together, they will need a legal agreement as to how they will deal with one or more of the group wishing to sell their portion and move out.

Ways of handling this include the other housemates buying out the leaver's share of the equity, although this may be difficult if budgets are already tight.

Another option is to let out the spare room(s), but this can pose cashflow problems if there is a long rental void between tenants. A third way is to sell the vacant share of the property to another friend or relative.

Shared ownership

Shared ownership deals by contrast, are offered by Housing Associations, and allow you to buy part of a property and pay a subsidised rent.

The downside is that if you later want to buy a greater share of the property, it will be at current market value which may be expensive if prices have soared.

Shared mortgage and shared ownership deals vary considerably, but by coming to us, we can aim to steer you towards the best type of deal for you.

Did you know that average house prices in nine out of 10 towns in the UK are beyond the reach of first-time buyers, according to Halifax? It's small wonder that first-time buyers accounted for only three in ten of all new mortgages in 2004. (Source: Halifax, January 2005)

So many choices...

Continued from page 1

(by volume) accounted for 41 per cent of all home loans, compared to 38 per cent in the first half of 2004 and just 23 per cent in the same period 10 years earlier.

But given the benefits of remortgaging, one has to wonder why some borrowers are not doing so. For example, according to moneyfacts.co.uk, almost a half of all mortgage borrowers (46 per cent) are on their lender's Standard Variable Rate, yet there's the possibility of better deals out there, through fixed, discounted or tracker rates. Whilst, many may cite the time and aggravation involved with remortgaging, these days it's a lot less hassle than in the past.

The first step

So where do you start if you are considering switching mortgage?

Why not get in touch with us, as there are literally thousands of mortgages out there for you to choose from. We'll review your current arrangements and financial position to see if we can find a more suitable deal for you from either your existing lender, or by remortgaging.

Initially, we may contact your existing lender to see what they can offer - as they may be keen to hold onto your business. We'll then calculate the cost of remortgaging compared to what you are paying now, or against what's on offer. And in the process, we'll consider issues such as early repayment charges, conveyancing, surveys, valuations and so on to establish the net cost.

With so many products to choose from, it pays to take professional advice to guide you through the mortgage maze. So give us a call, and we'll help find the very best deal for you.

(Sources used: Abbey press release, June 2005; Council of Mortgage Lenders, September 2005; Moneyfacts press release, August 2005)

You may have to pay an early repayment charge to your existing lender if you remortgage.

■ Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on your mortgage.

Anyone entering the **buy-to-let** market, joins a small army of amateur and professional landlords.

The Keyholder

Over half of all buy-to-let landlords (53 per cent) own 1-4 properties, according to research from Charcol, with 30 per cent owning just one property. Whilst, this is only a small percentage of the overall buy-to-let stock, it shows that many of us are keen to enter this market sector. (Source: Charcol, October 2004).

Furthermore, it seems that even some first-time buyers are getting in on the act by opting to continue renting in the area in which they live and become buy-to-let landlords elsewhere - where property is less expensive.

For recent landlords and those that may want to enter the market, here are a few 'key tips' to help you avoid some of the pitfalls and may even help you on the way to becoming a successful landlord in your own right.

KEY BUY-TO-LET TIPS

1. Do your homework: speak to letting agents about areas which are good for renting and how much rent you can expect.
2. Do the arithmetic: once you've located a suitable area, work out how much you will need to borrow. Most lenders will want to see rental income of at least 125-130 per cent of your monthly mortgage repayments.
3. Choose your mortgage with care: normally, it is advisable to take out an 'interest only' mortgage as the interest is a deductible expense against your rental income which is liable to income tax at your marginal rate. But do seek advice from an accountant before entering the market.
4. Borrowing limits: many lenders will offer mortgages of up to 80 per cent loan to value (LTV) for rented properties, and some up to 85 per cent. But be careful not to overstretch yourself, as the rent you can charge may not rise (and could even fall) and there may be voids when you will have no income, but still have to meet property-related bills such as council tax.
5. Find a good property: remember you are looking for a property with strong rental potential, not what you find attractive yourself! Also factor in the likely cost of repair and maintenance and remember that leasehold properties can involve high service charges over which you may have little control.

Whilst this shows that you need to be disciplined in your approach to buy-to-let, it's not dissuaded the existing army of landlords, so if you want to hear more, then give us a call.

■ **Some aspects of Buy-to-Let Mortgages are not regulated by the Financial Services Authority.**

Nobody wants to leave their dependents destitute, so if you are taking out a mortgage, you really ought to consider - at the very least - purchasing some life assurance to cover the mortgage loan.

It's your LIFE – so get covered!

Term assurance is usually bought to cover the mortgage term only and nowadays is extremely competitive.

This means you can obtain high levels of cover for relatively low premiums, although remember there is no residual value when the policy expires.

Level term assurance is commonly used to cover interest-only mortgages.

Decreasing term assurance is also a popular option that is sold with repayment mortgages and may be a cheaper option than level term assurance, as the amount of cover reduces over the life of the policy, largely in line with the amount of capital owed.

Other forms of life assurance also exist that can run beyond the life of the mortgage loan.

■ **Your home may be repossessed if you do not keep up repayments on your mortgage.**

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ID theft hits homemovers

According to the credit rating agency, Experian, 43 per cent of identity fraud in the UK occurs at homeowners' previous addresses because they fail to arrange for post to be redirected when moving home.

(Source: Experian, January 2005)

Five years on...

According to Credit Action, in the five year period up to the beginning of 2005:

- Total UK personal debt has increased from £609bn to £1,114bn.
- Total secured lending on homes has increased by £430bn to £924bn.
- At the same time, the average house price has risen from £96,340 to £182,651.

(Source: Credit Action, September 2005)

On the move!

Two-thirds of people find moving home to be highly stressful, according to research by Yorkshire Bank, with one in three finding it hard to keep their home like a show house to impress prospective buyers. In fact, for some, moving creates so much stress that one in eight vow never to move again!

(Source: Yorkshire Bank press release, September 2005)

Look to the future

For anyone who's been on another planet for the last few months, from 6 April 2006 (A-Day) there will be a complete revamp of the pension laws, and - amongst a whole host of options - an individual will be able to place **residential property,** within a Self Invested Personal Pension (SIPP), as part of their retirement planning.

A SIPP is a trust that's managed by trustees on the clients behalf. And industry commentators feel that this may provide tax advantages for people involved - or who want to get involved - in the **buy-to-let market,** or for **holiday homes** that may be rented out for part, or all of the year.

Of course, they also accept that the SIPP route won't necessarily be suitable for everyone, as an individual will need to have an appropriate amount of money already in their personal pension, or be able to make suitable contributions - or both.

Anyhow, here's some current topline information:

➨ Income tax relief means that Her Majesty's Revenue and Customs effectively adds up to 40p (if a higher rate taxpayer) for every £1 that someone invests in their SIPP. Tax relief on pension contributions after A-Day, will be available on 100 per cent of taxable earnings, subject to a limit (£215,000 in the 2006-7 tax year).

➨ To purchase a property via a SIPP, the borrowing limit will be 50 per cent of the fund's value, so if the pension pot is worth £100,000 on 6 April 2006, the fund could borrow a maximum of £50,000, equating to £150,000 for a property purchase.

➨ The SIPP then legally owns the property, and all mortgage payments and bills for repair and maintenance have to be paid out of the pension fund's assets.

➨ Such property investments owned by a SIPP will be free of capital gains tax (CGT) on sale and the rental income - which must be paid into the pension - will be free of income tax.

➨ For holiday homes which the SIPP owner may wish to use for part of the year, either a payment equal to the commercial market rent must be paid into the fund, or pay income tax at 40 per cent on the benefit in kind.

➨ For holiday homes located abroad, there may still be local taxes to pay and legal matters to comply with, such as the overseas country's attitude to UK trust laws, which is why some SIPP providers may not handle such transactions.

➨ If a property that's already owned prior to 6 April 2006 is transferred into the SIPP, then there would be CGT to pay on sale, along with stamp duty on purchase.

Whilst the pension changes may deliver benefits for some, it is a highly complex area - with action that can be taken both prior and post 6 April 2006 - so you must take legal and financial advice before proceeding.

We are not authorised to provide advice on pensions and this article appears for information only.

■ We treat all the information provided by you with the utmost care and security. Any details you give will remain confidential and will only be disclosed at or with your consent, where we are legally obliged to do so or where we have a duty to the public to disclose that information. The information collected by us will be used only for the purposes stated by us. Where we use your personal details to communicate to you information about other products and services we will give you the opportunity to tell us that you do not wish for it to be used in such a manner. Please do not provide your details to us if you do not consent to the above.

PLEASE GET IN TOUCH WITH ME!

I would like to discuss the following ticked topics with you. I understand that the request is without obligation. Also, by providing my telephone number, I give you permission to call.

❑ **Remortgaging** ❑ **First-time buyer** ❑ **Buy-to-let**
❑ **Protection products** ❑ **Insurance products** ❑ **Buying a second home**
❑ **Secured loans** ❑ **Mortgage health check**
❑ **General mortgage information**

❑ **Other** (please specify) _____

❑ **Please do not send any further issues**

Name (Mr/Mrs/Ms) _____

Address _____

_____

Email _____

Tel (+ best time to call) _____ Signature _____

Please put the coupon in an envelope and post to:
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Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on your mortgage.

We are Independent Mortgage Consultants and there may be a fee for arranging a mortgage. The precise amount will depend on your circumstances, however, it will be no more than 1% of the mortgage advance.

■ The contents of this newsletter are believed to be correct at the date of publication (November 2005).

■ Every care is taken that the information in *The Mortgage* newsletter is accurate at the time of going to press. However, all information and figures are subject to change and you should always make enquiries and check details and, where necessary, seek legal advice before entering into any transaction.

■ The information in this newsletter is of a general nature. You should seek professional advice tailored to your needs and circumstances before making any decisions.

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