Summer 2015

Mortgage & Protection news

The newsletter from HD Consultants

Time for ACTION?

» For some, now may be a good time to buy a first home, move up the property ladder, remortgage to get a more suitable deal, or perhaps, set-up a buy-to-let portfolio.

And with the election now behind us, this optimism might be fuelled by some of the developments over the last year or so. This covers the improving economy, the launch of the Help-to-Buy schemes, the revamping of Stamp Duty (or its comparable offering in Scotland) and the excellent mortgage deals that are currently on offer.

As for the average UK house price, this has surpassed the previous peak of 2007, albeit growth of late has been more moderate, partially driven by the slowdown in London prices. *(Source: Nationwide House Prices, March/April 2015)*

Jumping through more hoops

Of course, this has occurred against a backdrop of tighter lending regulations that were introduced over a year ago, meaning that it might be harder for some to obtain the mortgage deal they want.

The bedding in of those regulations, along with the uncertainty around the election result, are thought to have helped depress lending figures. However, March showed a 7% year-on-year rise, and whilst April is estimated to show a 4% annual drop, the Council of Mortgage Lenders (CML) still feel that we are on the cusp of a modest lending recovery. *(Source: CML, May 2015 release)*

Decent deals on offer

This improving optimism is also reflected in research from the Building Societies Association (BSA), which shows that 36% of consumers believe that now is a good time to buy a UK residential property, up from 31% in December. At the same time, those that disagreed fell from 16% to 13%.

(Source: BSA Property Tracker, March 2015)

To reinforce this point the quarterly analysis from Mortgage Brain (a mortgage sourcing platform) shows a widespread drop in lenders' interest rates across the last six months for most product offerings - another positive development. *(Source: Mortgage Brain, April 2015)*

And looking ahead, a recent report from the Bank of England sets out that this scenario is likely to continue as lenders fight for market share, which may possibly result in even better deals on offer.

(Source: Bank of England, Credit Conditions Survey, Q1 2015)

Take advice

If all of this motivates you to act, then do get in touch with us, and we can identify the most suitable (and achievable) options for your needs.

And whilst we don't have a magic wand, we do operate in this marketplace day-in, day-out, so we will have a much better feel for where you'll enjoy success and in the process help ensure that your credit rating isn't adversely affected through making multiple applications.

We will also keep abreast of any financial developments as the new government beds itself in - and can convey where it may, or may not, benefit you.

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

The Financial Conduct Authority does not regulate most Buy-to-Let mortgages.

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Welcome.... to this newsletter, which covers what we believe are some of the key issues of the moment that affect mortgage, protection and insurance products - and sets out how we **may help you.**

You can both RELAX...

What with a raft of 'tighter' rules, a wide range of mortgage products to consider, combined with too little time on your hands, it makes sense to take advice.

The new mortgage borrowing rules have now been with us for over a year. They are designed to ensure that there is a sensible lending policy in place to help avoid past problems. What this translates to for hopeful borrowers are stricter 'evidencing of income' and 'affordability' rules, to ensure that borrowers are stress-tested to see if they can not only meet current payments, but also be able to cope should the interest rate rise.

Seeking advice

With lenders having some flexibility in interpreting the rules it could also mean that a negative response from one may not necessarily mean that you won't get a positive answer from elsewhere. That's why it makes sense to talk to us, as we will run through your needs, consider your circumstances and then endeavour to find the most suitable route for you.

And it's not just the mortgage loan that we'd help to source, we would also consider the various types of insurance policies available that may deliver protection for your home, your future mortgage payments, and more.

Meeting differing needs

We're also aware that you may have time-pressed lives, so we can hold your hand throughout the process, and liaise with the various parties along the way.

And, of course, we already help a whole range of clients, from those who are new to home ownership, have a home and may want to move up (or down) the property ladder, or simply want to stay put and seek out a better deal, or require funds to assist with the cost of home improvements.

Changing circumstances

According to research from HSBC nearly 4.3m mortgage borrowers (equating to almost 40% of all borrowers) may be sitting on their lenders' Standard Variable Rate (SVR) - which is likely to be at a higher interest rate than many of the deals currently on offer. *(Source: HSBC, November 2014 release)*

There are various reasons why this may be the case, resulting in the borrower not taken action - such as a drop in the value of the home in relation to the mortgage loan, lower income streams, or a change in employment or family circumstances.

Help could possibly be at hand though. According to the same research, 3m are borrowing less than 90% of the home's value, thereby opening up access to potentially better deals.

Additionally, if a borrower simply wants to secure the same loan amount, has a good payment record, and just wants to get an improved interest rate deal, then they may even be able to avoid going through all the affordability checks.

Again, every situation is different, but through our knowledge, experience and ability to consider the wider marketplace, it's more likely that we, as qualified advisers, can help to resolve your needs.

So do get in touch to find out more.

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

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

Ready for Home Improvements?

After a good few years where you may have had to control the purse strings, now might be the time to start thinking about those home improvements that you've previously put on the back burner.

The additional funding required for the renovations may both improve your quality of life, and could add value to your property. And combined with the decent deals on offer, it may well make the whole process a feasible option for you.

A further issue that may influence your decision is that the planning rules have been relaxed in some areas.

A popular improvement is to add extra rooms and, in particular, a bedroom, thereby possibly avoiding the immediate need to move. This would generally be delivered by a loft conversion, extension, or converting the garage, which are all seen as some of the best investments in a home.

The kitchen, which can often be the focal point, may also be worth updating, but do consider if it would work for others should you think of selling up in the near future.

The addition of an extra bathroom may not only improve family life, it's also seen as a positive move for any future sale.

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

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

First-Time Buyer help

The deposit and house price rises may still be areas of concern, but much has been done to support the first-time buyer.

The introduction of the Help-to-Buy schemes have assisted in addressing the problem of having to save for a sizeable deposit before you could have access to the better (or any) mortgage deals. By now, it's likely that we're moving towards 100,000 people that have already taken up one of these schemes.

(Sources: HM Treasury and Dept. for Communities and Local Government - DCLG, March 2015 releases)

House building targets

The issue of rising house prices may also be slightly tempered if the government really do deliver on the promise of building more homes to meet the demand. This demand currently sits at around 200-250,000 new homes required each year. But even though house building is on the rise, at best over the last few years, it has only been hitting around half of that target.

(Sources: DCLG, House Building and Home Builders Federation, February 2015 releases)

Stamp Duty

Another initiative which may help the first-time buyer to divert more funds to delivering a deposit, or perhaps much-needed monies for home improvements, is the decision last Autumn to reduce the level of tax that's paid on the majority of property purchases.

According to some research from Nationwide, more than two-thirds of homebuyers across the UK are likely to benefit from the new Stamp Duty regime (or similar Land and Building Transaction Tax in Scotland). And 29% would see no change, with just 2% likely to pay more.

For example, the savings would be £500 on a £200,000 property (£900 in Scotland), and for a £300,000 home it would be £4,000 (£4,400 in Scotland).

(Source: Nationwide, March 2015)

A first-time buyer myth

Yet surprisingly, research from Halifax shows that nearly eight out of ten people, aged 20 to 45, feel that banks don't want to lend to first-time buyers.

However, this doesn't exactly tally with the improved take-up of first-time buyer mortgages. Whilst it did sit at a peak of 402,800 mortgages in 2006, dropping to a low of 192,300 in 2008, it climbed back up to 311,400 in 2014 - equating to a sizeable 46% share of all house purchases made that year with a mortgage.

(Source: Halifax, 2015 Generation Rent Report)

Talk to us to see if we can help you (or a family member) to dispel this myth and obtain a suitable loan.

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

Essential family planning

Will planning

If you want to protect your estate, it's essential that you have a Will in place, yet around 58% of us don't!

(Source: Unbiased.co.uk and Certainty.co.uk, October 2013)

Dying Intestate (without a Will) may mean that your estate might not go to the people you intended; or in a way where it may not be shared out as you would have wished.

And, in the absence of a Will, the whole process is slowed down dramatically; often meaning that the family left behind may face financial hardship, at the worst possible time. And it's even worse for unmarried couples!

Trust planning

A Trust is another legal arrangement and can help ensure that life policies are paid out speedily to the beneficiaries. You can set up a Trust in your lifetime or in your Will.

It can also protect beneficiaries who might be too young to handle their affairs. And let's dwell on this aspect, as this type of planning isn't something simply to consider once you're retired.

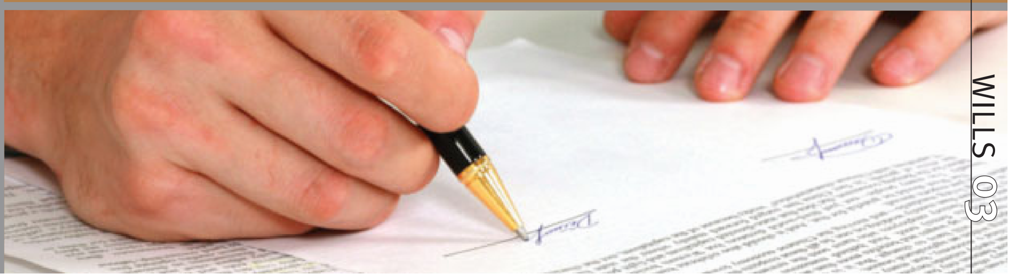
Consider the children

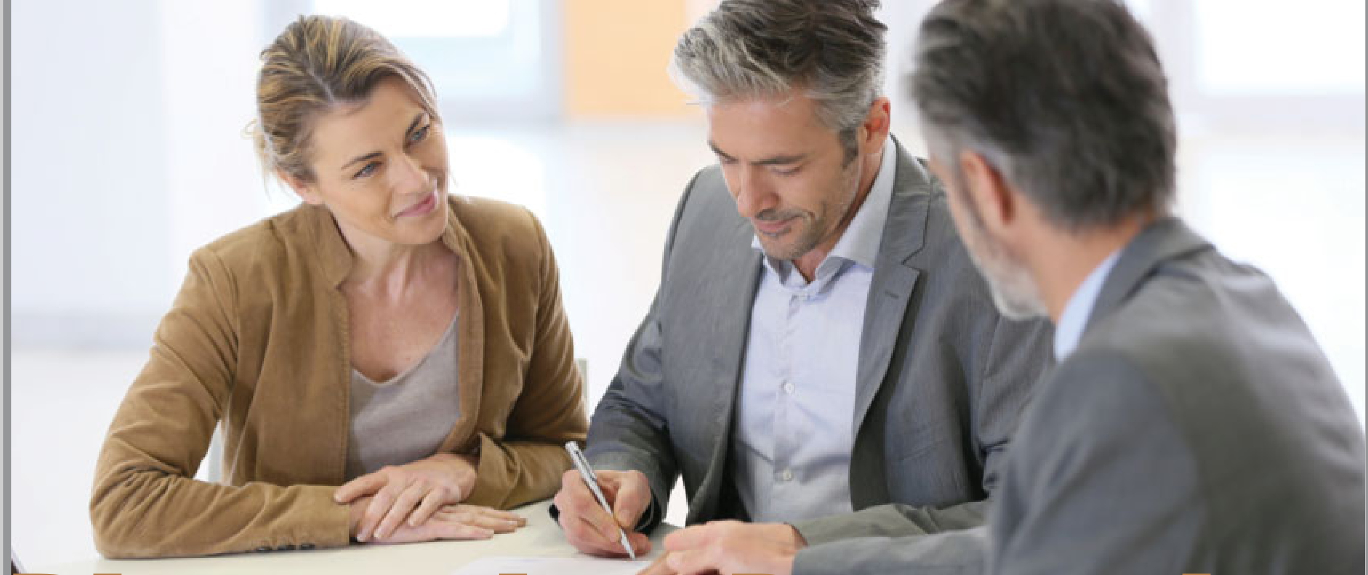
If there isn't a Guardianship arrangement in place to protect your young children - and both parents die - then the children may have to go into care!

The simplest way to protect against this is through a Will, or by having a Guardianship letter in place, both of which will set out your wishes, and whom you want to appoint as a guardian. Similar circumstances might occur if a couple aren't married and the mother dies and hasn't previously granted parental rights.

Not all protection policies should be written in Trust, so do take advice.

The Financial Conduct Authority does not regulate Will writing or Trust advice.





Discussing Protection

Many of us will happily insure our mobile, pet, or household appliances, yet often neglect to protect the income stream of the main wage earners who fund this and much more.

» That's why it's important to have adequate protection in place to cover the mortgage, alongside the day-to-day living expenses, should a main wage earner be unable to work due to illness, injury, or worse still, death.

Whilst, across the board, the take-up of protection products still remains fairly low, it does seem that more and more are jumping on board as they recognise the benefits and peace of mind that this can bring. For example, research from Aviva shows that 42% of UK families have **Life Cover** in place (up from 36% in July 2014), 10% have **Income Protection** (up from 7%), and 16% have **Critical Illness** (up from 11%). *(Source: Aviva, Family Finances Report, December 2014)*

■ The product areas

Whilst there are a multitude of plans on offer to meet varying needs and circumstances, let's consider three key areas:

- Protection should you die. This is on offer through various forms of **Life Cover,** or schemes such as **Family Income Benefit.**
- Protection to deliver a regular income should you fall ill, or suffer an injury meaning that you may be off work for a considerable period of time. An **Income Protection** policy is the main option on offer here.
- Protection to pay out a lump-sum should you suffer a serious illness such as a heart attack, cancer or a stroke. In this respect, a **Critical Illness** policy may meet that need.

In all cases you need to be aware that certain restrictions may apply and you must be honest, at the outset, when filling out the forms.

BUT DO THE POLICIES REALLY PAY OUT?

The industry is well aware that a sizeable number of people simply don't believe that most claims are paid. Yet well over 90% of them are met, resulting in an average daily payout of over £8m. The latest annual figures show that there were almost 100,000 successful claims, with an average payout of £31,140.

Broadly, the average individual payouts for the three sectors mentioned above are:

Life Cover = around £28,000
Income Protection = around £12,000
Critical Illness = around £60,000

(Source: Association of British Insurers, 2013 statistics, released May 2014)

■ Product enhancements

The insurers are also constantly fine-tuning and developing their product offerings to ensure that they meet and reflect consumer needs, with the following being examples of this:

Life Cover - some providers recognise that if the planholder takes greater responsibility for their health, then they should be rewarded, as they may be less likely to claim in the immediate future. So initiatives such as discounted health club membership may be on offer. Some also accept that it's not just about the money if there's a claim, but a need to offer bereavement counselling too.

Income Protection - to claim against an income protection policy, some plans pay out if you're unable to undertake your 'own occupation', rather than 'any occupation'. There has been an increasing move towards plans that stipulate this, rather than linking it to being unable to do any job, which makes the offering far clearer for the policyholder, and a payout more likely too.

Critical Illness - an issue with critical illness plans is that often only certain types of a particular illness (such as cancer) are covered. Over the last few years providers have accepted this and increased the range of illnesses covered, which again should provide more comfort for those taking out this type of policy.

Additionally, in some cases, insurers are now offering partial payouts to customers, where a less severe condition could be the subject of a claim for a portion of the sum assured, with some plans then allowing the full cover to remain in place.

These are just a few examples of why it makes sense to take advice to ensure you opt for the best plan(s) that meets your needs - as the options can be quite complex, and it's not just about which is the cheapest.

As with all insurance policies, terms, conditions and exclusions will apply.

Alternative FUNDING

Did you know that there are other borrowing options out there which may be more appropriate for certain circumstances?

» To some extent, the introduction of the tighter lending rules for mainstream mortgages may have assisted the growth in alternative lending options. Of course, these lenders still need to do their homework to establish if you're a suitable borrower, but as they may operate under slightly different criteria, there could be a more positive outcome, and perhaps, better turnaround times too.

Bridging Loans

These are designed to be a short-term measure that can help you through an initial period, until alternative financing can be put in place. It's a sector that has enjoyed an increase in popularity, with the take-up of bridging loans, by value, increasing by 63% in 2014, in comparison with 2013. *(Source: Association of Short Term Lenders, 2014 figures)*

Individuals (and businesses) often turn to bridging when they require short-term funds swiftly, and the industry can be highly responsive to those needs. These funds could enable borrowers to secure a property (at auction perhaps), or make enhancements to their current property, while waiting for a loan from their mortgage lender or other source to come through.

Bridging loans will not suit everyone and can be a more expensive form of borrowing. And specialist finance such as this is certainly NOT the right product for those who are in any form of financial distress. On the contrary, it's designed for people who have some element of wealth through property assets and who wish to use a bridging loan to quickly and easily extract liquidity from those assets.

The benefit is that it could, for example, open up the possibility of snapping up a new property at a time that suits you - without losing out because the sale of your existing home may be part of a lengthy chain. You'd obviously need to do the maths, to establish if the cost of a bridging loan is outweighed by the time, flexibility and possible financial benefits it can deliver.

Secured Loans

Some people may have had enough of treading water for the last few years and could now want to undertake some of the bigger tasks around the home. However, this might not require sizeable funds to make remortgaging a worthwhile (or desirable) option. And this is where a secured loan might help.

They are designed for homeowners who can use part of the equity in their property to obtain a loan that may sit as a second charge on top of their mortgage (which would probably be with a different lender).

And, like bridging loans, secured loans have also seen an increased take up over recent time. In fact, the February 2015 loan figure was the 40th consecutive monthly year-on-year increase! *(Source: The Secured Loan Index, April 2015 release)*

Secured loans may be an option for the following situations:

- A large number of mortgage borrowers are deemed 'mortgage prisoners', who may find it difficult to remortgage (particularly if they want to increase the amount borrowed).
- Some mortgage borrowers may be sitting on an interest-only product, where remortgaging could require them to revert to a standard repayment loan (which may cost them more each month, even if they secure a better interest rate deal, as part of the capital needs to be paid off too).
- Other mortgage borrowers may simply not want to jeopardise the current deal they're sitting on.
- Or some may want to consolidate their debts. Although, taking out a longer term loan such as this may mean that the borrower ends up paying more in interest payments, than if they paid off any credit or storecard amounts over a shorter term.

As the interest rate on both a bridging loan or a secured loan is generally higher than an average mortgage one, we would need to assess if it's a suitable option for you.

THINK CAREFULLY BEFORE SECURING OTHER DEBTS AGAINST YOUR HOME. YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE OR ANY OTHER DEBT SECURED ON IT.

The Financial Conduct Authority does not regulate some Bridging Loans.

Prospects for BUY-TO-LET

Buy-to-Let accounts for more than one in seven of all outstanding mortgages in the UK, by value.

*(Source: *Bank of England, Trends in Lending, released April 2015)*

» This sector is a sizeable part of the UK mortgage scene and following the financial crash, the amount lent for buy-to-let mortgages has steadily increased each year since 2009 - with as much as £27.4bn being lent in 2014.*

And the enthusiasm for buy-to-let is unlikely to dwindle in the foreseeable future, as so many factors play into its hands. The latest one are the new pension freedoms from April which allows certain pension planholders, aged 55+, to remove some or all of their money from within their pension pot.

It's thought that some of it may then be used for buy-to-let activity, where investors may feel they will get a better return and/or have more control over their funds (albeit they may face tax issues).

■ Other factors

You can understand why people are being attracted to creating a buy-to-let portfolio or expanding on what they already have when the above is then added to the following factors:

- Not enough homes are being built each year to meet the demand.
- Population growth will merely exacerbate that problem, with the UK population expected to grow to about 72m by 2032 from the current figure of around 65m. *(Sources: Housing supply - Home Builders Federation, February 2015; Population - Office for National Statistics)*
- At the same time those that are renting may either simply be happy to continue to do so - as it delivers the flexibility they desire. Or they may feel that saving for a deposit, followed by extensive credit check, affordability and evidencing of income hoops applicable to securing a mortgage loan may not be viable, or desirable, for them.

■ Into the future

So it's no surprise that without a massive programme of building affordable housing (partly promised in the election campaign), the privately rented sector is expected to grow to 35% of all homes by 2032. *(Source: Intermediary Mortgage Lenders Association, May 2014)*

■ It's not all plain sailing

Anyone already involved, or planning to become a landlord, must realise that there are drawbacks too. There are plenty of regulatory and insurance issues that you will have to get your head around, and you need to choose your tenants wisely (students, families, etc). A letting agent could handle some of these issues, should you want to delegate.

You'll also need to assess the right area, and property type, and do the sums to work out the expected rental income vs. the cost of the loan. As part of that process, you'd need to factor in any additional expenses and possible void periods, when a property is not occupied, yet you may still be facing costs.

■ Historical position and current views

Recent research set out that every £1,000 invested in an average buy-to-let property purchased with a 75% loan-to-value back in 1996 would now be worth around £15,000 - delivering a far better return than other asset classes such as UK equities, gilts, commercial property and cash. Of course, there is no guarantee of future returns, as that's dependent on rising property prices, which could just as easily fall.

(Source: The Wriglesworth Consultancy, with the report sponsored by Landbay, April 2015)

Further research has also shown that for the first quarter of 2015, 42% of landlords said that tenant demand was either growing or booming, whilst only 4% felt demand was declining.

(Source: Paragon Mortgages, March 2015).

If you would like to discuss your mortgage or insurance needs within the buy-to-let sector, then do get in touch.

There is no guarantee that it will be possible to arrange continuous letting of the property, nor that the rental income will be sufficient to meet the costs of the mortgage.

The value of your Buy-to-Let property and income from it can go down as well as up.

You may also require advice on the legal and tax issues.

The Financial Conduct Authority does not regulate taxation advice, and most Buy-to-Let mortgages.

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

We normally charge a fee for mortgage advice. The amount will depend on your circumstances. A typical fee would be £500.

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■ We cover mortgages, insurance and protection products along with a number of other financial areas, so do contact us if you'd like to discuss your financial needs: Tel: 01206 577 266 Email: office@hdconsultants.net Web: www.hdconsultants.net