Spring 2016

Mortgage & Protection news

The newsletter from HD Consultants

Should you be assessing both your borrowing and protection needs?

» As you may know, there are currently some decent mortgage deals on offer. Added to this, there have been various government initiatives designed to help stimulate the property market, such as increased efforts to build more homes, relaxation on some planning laws, further support for the first-time buyer, and changes to Stamp Duty (albeit not for the best for some landlords).

As for property prices, there are still wide regional variations, but prices have been rising, although at a fairly moderate rate, with Halifax (in Dec. 2015) forecasting a 4-6% increase across 2016. Understandably, price rises will not be good for everyone.

The economy too is in slightly better shape, which may deliver some increased confidence. This could be a factor that helped grow mortgage lending across the latter part of 2015.

(Source: Council of Mortgage Lenders, November 2015 release)

Take control of your destiny

So, irrespective of whenever the first Bank Rate interest rise will come, surely it makes sense to be pro-active. This means that you can then make plans at a time that suits you, rather than being driven by external influences. For example, you may already be keen to achieve some of the following:

- Undertake much-needed renovations to your current home.
- Decide that now's the time to climb up the property ladder (or perhaps downsize).
- Seek out a better mortgage deal than the one you're currently on.
- Buy your first home, and take advantage of some of the schemes on offer.
- Conversely, you may look to expand your property portfolio, either through becoming a landlord, or simply want that holiday home you've always dreamed of (see page 3 for more about this).

We're here for you

Whatever you want to achieve, we can endeavour to help. With tighter lending regulations making it harder to borrow (and more rules are on their way, which have to be implemented by 21 March 2016), it makes even more sense to take advice to gauge what may work for you across the wider marketplace.

In fact, that's possibly why it's no surprise that in a 2015 survey, 78% of mortgages now go through intermediaries (such as us) - a sizeable jump from 56% in 2014.

(Source: IRESS Mortgage Efficiency survey, October 2015)

If you'd like to hear more about how we could assist with your borrowing needs, along with ways to protect you (and your family), then please get in touch.

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.**

Protect YOUR INCOME

Did you know that each year, **one million workers** suddenly find themselves unable to work due to serious illness or injury?

(Source: Association of British Insurers, Welfare Reform for the 21st Century, September 2014)

We insure our cars, homes, mobiles and pets against accident or damage, but do enough of us protect our income, should we be unable to work for any length of time due to an injury or illness?

Surely a lengthy period off work would be a concern for any household? Yet worryingly, more than one in five (23%) Brits with savings, say they wouldn't last longer than a couple of months if they were unable to work, yet less than one in 20 protect their income!

(Source: Scottish Widows, November 2015 release)

Of course, you might find that you're eligible for state benefits, of limited value. Also, your employer may pay you for a period of time, but how long will that last, and will that be enough?

Works when you can't

So it makes sense to have a back-up plan to help top-up any payments you may receive from elsewhere.

One route is to take out some **Income Protection** insurance. This is designed to pay out a tax-free monthly sum in the event that you are unable to work due to illness or injury. In short, it works when you can't!

It pays out until you can start working again, or, in some cases, until you retire. Each policy will have different conditions, such as not being able to work in 'your own occupation', or 'any occupation', and you would obviously need to disclose any pre-existing medical issues.

Once you've got an idea of what income you may need, you can then decide when you'd like your plan to kick-in (called the deferred period). The longer you wait, the cheaper the premium will be. And do be sensible about how much you require (up to a maximum amount) until you're able to return to work. Again, the less you need, the lower the premium.

Over 90% of claims are paid out

In the latest set of statistics, 93% of all 'Individual Income Protection' claims were paid out in 2014. The average payout covered almost a four-year period and amounted to about £39,000.

(Source: Association of British Insurers, August 2015 release)

The payout statistics show that whilst policyholders might need funds for a considerable period of time, they are generally not opting for life-changing amounts, but simply enough to see them through until they're able to work again.

So, although you may still think: *'it'll never happen to me'*, do remember that life's unpredictable, and surely it's better: *'to have something and not need it, than to need something and not have it'!*

Please get in touch if you'd like to find out more.

If you take out an income protection policy and stop paying premiums you won't get any money back and you'll no longer be covered.

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

Helping the First-Time Buyer

The Help-to-Buy schemes have now enabled 130,000 people to buy their own home, with 94% of all completions taking place outside of London, and 80% of the take-up coming from first-time buyers.

(Source: gov.uk, Help-to-Buy, December 2015)

In the Autumn Statement, the Chancellor said that: *"people buying a home to let should not be squeezing out families who can't afford a home to buy"*, and put in place further initiatives, such as:

- Doubling the housing budget to £2bn a year, in order to build 400,000 affordable homes by the end of the decade.
- Included within this would be payments to developers to build starter homes for first-time buyers, who will get a 20% discount on property worth up to £450,000 in London, and up to £250,000 elsewhere.
- In England, the current restrictions on who can buy a home through the Help-to-Buy shared ownership scheme will be removed from April 2016.
- The parameters of the Help-to-Buy Equity Loan scheme will be enhanced for Greater London increasing the upper limit of the government's loan from 20% to 40%. *(Source: gov.uk, November 2015)*

These are just some of the proposals that will come in from 2016 and, of course, various terms and conditions will apply. However, it demonstrates that improved options do exist for the first-time buyer (across the whole country), and as part of that process we can help identify the most suitable mortgage loan for your needs.

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

Buy-to-Let news

The continued growth of Buy-to-Let has meant that it now represents over **one in seven** of all outstanding mortgage lending. *(Source: Council of Mortgage Lenders, May 2015 release)*

» To some extent, the sector has now become the victim of its own success, with both the government and regulatory bodies seeking to apply more control.

In one respect, the buy-to-let market is viewed as a decent revenue source for the government's coffers. At the same time it's seen by the Bank of England to be more likely to be cyclical in nature, which it feels could impact upon a measured recovery in the economy.

Stamp Duty changes

The Chancellor announced in November that purchases of buy-to-let properties (and second homes) would attract an additional 3% stamp duty above the current banded levels. Some of the detail may still be up for discussion, for example, it's thought that this may exclude landlords who already own 15+ properties.

However, with this ruling being applied from April 2016, we may see some increased activity in the marketplace from those looking to purchase properties, who now want to complete ahead of this date.

New European rules

Elsewhere, there is a new EU initiative (Mortgage Credit Directive), which has to be in place by 21 March 2016, and relates to a differentiation of 'consumer' and 'business' buy-to-let. The former (which may well represent around 11% of the marketplace*) will be affected by the new rules, which are designed to protect the borrower. *(Source: *HM Treasury, January 2015)*

Examples of consumer buy-to-let include when the property has been inherited and either the borrower or a relation has occupied the home, or where the borrower is unable to sell the property and decides to rent it out instead.

What it means

Together with the tax proposals (see right) it's vital that both existing and potential landlords do their homework.

However, what won't be lost on them is the continued demand from those that struggle (or are unable) to raise a deposit to enable a property purchase. Or the fact that we're not building enough homes, swiftly enough, to meet demand.

So it will be interesting to see if the current initiatives put any dent in the projections that the private rented sector will grow from around 20% of all homes to about 35% by 2032. *(Source: Intermediary Mortgage Lenders Association, May 2014 report)*

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 legal and taxation advice, and most Buy-to-Let mortgages.

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

Tax changes

Higher tax burdens for Buy-to-Let landlords are being phased in from April 2017 - with the full impact being felt by 2020. Currently, landlords are able to offset their mortgage interest and other finance costs against the property income, thereby reducing their tax liability. Those on higher tax rates are able to receive relief at their marginal rates of 40% or 45%.

By 2020 the government's plan is to restrict relief to the basic rate of income tax (20%) for all individual landlords.

Some basic rate taxpayers may also be hit, as the change might push them into the higher-rate tax bracket.

Example scenario

For a 40% taxpayer whose buy-to-let property earns £20,000 a year, against the annual cost of £13,000 for an interest-only mortgage, the current tax paid will be 40% of £7,000. A tax bill of £2,800. Assuming the same scenario in 2020, then it's 40% of £20,000, less 20% of £13,000, resulting in a tax bill of £5,400.

Some options

First off, there's always a chance that the proposals may be watered down.

Second, remember that buy-to-let has generally proved to be a popular tax-efficient investment, delivering steady income and capital growth.

Third, think about remortgaging onto a better deal, or look for the best possible deal if just starting up. Do talk to us regarding this.

Thereafter, it makes sense to also liaise with your accountant, as there are numerous routes to consider - such as limited company status, looking for alternative ways to rent your property, and, of course, there's the option to raise rents, to help make up any shortfall.

HM Revenue & Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

REMORTGAGE off SVR

There are currently 1.9m mortgage borrowers sitting on their lenders' Standard Variable Rate (SVR), paying above 3% interest, and representing more than one in six of all mortgage borrowers!

» According to the same research, homeowners on an SVR could be paying an average of almost £4,000 a year (£329 a month) more than if they fixed their mortgage now. For example, the average SVR is 4.82%, whilst a two-year fixed rate mortgage could be over 2% lower. *(Source: HSBC, November 2015)*

Therefore, and possibly irrespective of whenever the Bank Rate may start to rise, it could make sense for SVR borrowers to establish if they can take advantage of the deals currently on offer.

Why not give us a call if you find yourself in this situation.

But, not too sure if you could remortgage?

We are also aware that, perhaps due to the financial crisis and the tougher lending criteria that now exists, a sizeable number of those on SVRs may be *Mortgage Prisoners*. In short, these are people who might feel they're unable to move house or remortgage.

If you think that you fall into this camp, it makes sense to take professional advice, as we may be able to identify a viable remortgaging option, or consider alternative ways to raise the funds. Do remember, just because you may have been turned down by one lender, doesn't mean that you may not enjoy success elsewhere. Additionally, the lenders themselves will also be continually amending their own interpretation of the rules, which may also work in your favour.

Mortgage Calculator

Here's how to use the mortgage payments calculator:
A £100,000 mortgage over 25 years, charged at a 2.5% interest rate would cost 100 x £4.49 (for Repayment) = £449 per month.

Monthly payments for a mortgage per £1,000 borrowed over 25 years

Interest rate %	Interest-only* £	Repayment £
1.00	0.83	3.77
1.50	1.25	4.00
2.00	1.67	4.24
2.50	2.08	4.49
3.00	2.50	4.74
3.50	2.92	5.01
4.00	3.33	5.28
4.50	3.75	5.56
5.00	4.17	5.85
5.50	4.58	6.14
6.00	5.00	6.44
6.50	5.42	6.75
7.00	5.83	7.07

* Excludes any payments to a separate savings scheme, to help pay off the capital amount borrowed.
This calculator only provides a guide to monthly payments and does not guarantee eligibility for a mortgage. The actual amounts that you may have to pay may be more or less than the figures shown. Please contact us for a personalised illustration.

Issues that have created Mortgage Prisoners

Personal circumstances - these may have changed for the worse since the borrower initially took out the loan, such as lower earnings or divorce.

Lender requirements - the lender that happily provided a mortgage loan a few years back, is likely to have now tightened its lending criteria due to recent regulatory changes, with more being introduced from 21 March 2016.

Mortgages that extend (or need to extend) into retirement - a current lack of desire exists with some lenders to lend into a borrower's supposed retirement years. However, moves are afoot (particularly from the Building Societies) to address this issue, recognising that many borrowers will now continue working into their 'expected' retirement years, or may have access to a decent pension pot to assist mortgage payments.

Self-cert and Interest-only - whilst these borrowing options would have been readily available a few years back - it's not the case today - resulting in possible difficulties for some, or the need to revert from interest-only to a repayment mortgage (see the chart to calculate the possible impact).

Don't despair - positive house price growth?

The average UK house price has risen by almost 20% (around £32,000) over the last three years to about £196,000, which may work to your advantage, and give you some wriggle room against the deal you previously took out. *(Source: Nationwide, House Prices, Q3 2015 vs. Q3 2012)*

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

THINK outside the box

Did you know that there are other borrowing options out there - such as **Secured Loans?**

» If you're looking to undertake some home improvements, but feel that for the level of funding required, remortgaging isn't the most suitable route, then a Secured Loan may work for you. It is an increasingly popular option for assisting this need, along with meeting other borrowing requirements.

In the secured loans sector the average amount borrowed sits at around £56,500, and the enthusiasm for this marketplace continues to grow, with lending in September 2015 exceeding £93m. If this growth pattern continues, then it won't be long before the annual lending hits £1bn+.

(Source: Enterprise Finance, Secured Loans Index, November 2015)

Over the years, the processes for the mortgage and secured loan marketplaces have been different, however, one of the factors behind the growth secured loans has been enjoying is the looming implementation date for the Mortgage Credit Directive on 21 March 2016. Which means it brings this sector onto a similar footing as standard mortgage loans.

Whilst this may limit some lending flexibility for secured loans, at the same time it opens up new avenues for the sector. So it's likely that you'll be hearing a lot more about this form of borrowing over the coming months, but don't delay if you think you may benefit from a loan now.

Situations where a Secured Loan may help...

- 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. As the repayments for a secured loan are set over an agreed timeframe, it does provide a disciplined way to pay off borrowings.

However, debt consolidation is not always the most suitable option, and consolidating debts must be carefully considered. It will usually mean more interest over a longer repayment term and there may also be early repayment penalties on your current mortgage. There are other ways to manage debt such as free debt advice charities, you can find out more by contacting the Money Advice Service. These services may be more suitable for you. http://https//www.moneyadviceservice.org.uk/en/articles/where-to-go-to-get-free-debt-advice.

The next step

As the interest rate on a secured loan tends to be higher than an average mortgage one, we need to do the maths to see how it equates against the alternatives.

Talk to us to find out more.

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.

Secured Loans explained...

It is designed for homeowners who can use part of the equity in their property to secure a loan that would sit as a second charge on top of their mortgage, which may be with a different lender.

There are almost 5.4m SMEs in the UK (small and medium sized enterprises). These are businesses with less than 250 employees, although the vast majority have less than 10 staff. But is each business doing enough to protect itself?

(Source: House of Commons, Briefing Paper, November 2015)

BUSINESS Protection

» According to a recent survey, awareness of business protection varies widely, with many preferring to protect their stock and equipment (44%), but not factoring in cover for their personnel, with only 21% taking out Key Person Insurance, 16% opting for Shareholder/Partner Protection, and just 8% have Business Loan cover in place. Yet with the economic climate slowly improving, surely it makes sense for a business to fully protect itself and the personnel who have helped build up the company over recent years. *(Source: Royal London, SME Business Protection survey, August 2015)*

So let's set out some of the key areas where some form of business protection may benefit the business, the shareholders, and its employees.

Key Person Insurance

This is designed to provide the business with the funds needed to cope with the financial impact of the loss of a key person in the company.

Understandably, the death or serious illness of a key person can cause considerable disruption. This could include loss of sales, loss of customer confidence, the withdrawal of credit facilities and the cost of hiring or training a new recruit.

Shareholder/Partner Protection

This helps the owners to keep control of the company, if one of them dies, or is diagnosed with a critical illness covered by the policy.

This plan will pay out a lump sum, which will help to provide funds to buy company shares. The payout will then help his or her family, as the share in the partnership might have been their main financial asset, other than their home. For the remaining partners, it enables the smooth continuation of the business.

Business Loan Protection

If the business has outstanding loans, it may be prudent to take out some form of loan protection to cover the cost of the ongoing payments or to pay off the loan in full, in the event that the bank calls in the loan prematurely.

The latter could be triggered by a fall in sales, a breach of the loan covenant, loss of credit insurance or the serious illness or death of a key person.

If the finance has come from a director's loan account, and the director were to die, then their estate might demand repayment of the outstanding loan. A business loan protection policy should apply in such circumstances and hopefully provide the business with a cash sum to help repay the loan.

Relevant Life Cover

This policy allows companies to offer a 'death-in-service' benefit to its employees (including salaried directors). It's set up by the company and pays out a tax-free lump sum on death (or possibly on diagnosis of a terminal illness) of the person insured. In this instance, the proceeds go directly to the employee's family or financial dependants.

This plan may be appropriate for businesses that are too small for a group life scheme. Or for high-earning employees who might exceed their personal pension lifetime allowance, as unlike group schemes, relevant life cover is paid outside of the pension fund.

Talk to us...

These are just four brief examples of the protection policies on offer for businesses, with each meeting a different need. If this is relevant for you, then we can discuss, in greater detail, the key concerns for your own business, and identify a suitable way forward.

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

■ Your home 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.

■ The contents of this newsletter are believed to be correct at the date of publication (January 2016).

■ Every care is taken that the information in *The Mortgage & Protection News* publication 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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■ 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