ESSENTIALLY MORTGAGES

Q2 2018 ISSUE 8

MORTGAGE TRENDS – WHAT'S CHANGED OVER THE YEARS?

HOW PROTECTION POLICIES CAN BE TAILORED TO YOUR LIFESTYLE

HOUSE PRICES – WHERE ARE WE NOW

MORTGAGE PAYMENT PROTECTION INSURANCE – A VALUABLE SAFETY NET FOR FAMILIES

LOAN-TO-VALUE RATIO – WHAT DOES THIS MEAN FOR ME?

A THIRD OF PROPERTY SELLERS HAVE CUT THEIR ASKING PRICE

INTRINSIC

IN THIS ISSUE

MORTGAGE TRENDS – WHAT'S CHANGED OVER THE YEARS?

Much has changed in the mortgage market since the first fixed-rate mortgage deal was launched in 1989. According to Moneyfacts, the best rate on offer then was a three-year fixed deal from NatWest at 12.4%.

Back then, the average house price according to the Office for National Statistics was £55,000. Fast forward to the early years of the new millennium, and in 2009 the lowest mortgage rate on offer was 3.89% from the Principality Building Society. Since then, rates have remained low, fixed-term mortgages have increased in popularity amongst borrowers, and the average house price in March was £227,871[1].

WITH THE MONTHLY MORTGAGE PAYMENT REPRESENTING A MAJOR HOUSEHOLD EXPENSE FOR MANY FAMILIES, IT'S NOT SURPRISING THAT BORROWERS ARE BECOMING MORE RATE-AWARE AND ARE REMORTGAGING TO SAVE MONEY

Longer-term loans

In the past, mortgages were most likely to be for a term of 25 years. However, as house prices continued to rise, lenders came to acknowledge that borrowers needed longer-term loans in order to make their monthly repayments affordable. By 2017, figures from the Bank of England showed that almost 16% of new mortgages were for terms of 35 years or more.

Low deposit lending

Lenders are now offering more options for first-time buyers who have a lower amount saved for a deposit. In March, the number of 95% loan-to-value deals on the market exceeded 300, the first time this had happened since April 2008. The market remains very competitive, and many of these 5% deposit deals come with additional incentives such as free valuations or cashback options.

Remortgaging to get a better deal

With the monthly mortgage payment representing a major household expense for many families, it's not surprising that borrowers are becoming more rate-aware and are remortgaging to save money.

With the Bank of England sending strong signals that interest rates may rise later this year, figures from UK Finance show that 49,800 remortgages were completed in January, 19.1% more than in the same month in 2017. Many borrowers are choosing to lock into two and five-year fixed-rate deals which enable them to budget effectively for the period of the loan.

Getting the right advice

If you're looking for a mortgage, your current mortgage deal is coming to an end, or if you've been with your existing lender for a while, this could be a very good time to get some mortgage advice. We know the marketplace well and can recommend the most appropriate deal for your financial circumstances.

[1] Halifax House Price Index, Apr 2018

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

HELP TO BUY – IS THERE A TIME BOMB LOOMING?

Under its Help to Buy scheme, the government provides equity loans to first-time buyers and second-steppers of up to 20% of the purchase price of a new-build property of up to £600,000. A London-only version of the scheme provides 40% equity loans.

The scheme, which was introduced back in 2013, means that borrowers need only a 5% cash deposit, while taking out a 75% mortgage which is topped up by the government's 20% equity loan. The 40% loan limit for Greater London homes came in during 2016.

In return, the borrower must pay the loan back plus a share of any increase in the property's value. After five years, borrowers are required to start paying interest at 1.75% on their Help to Buy equity loan, rising each year by retail price inflation plus 1%.

The alternative is to pay the loan off, but this usually requires the borrower to remortgage which means they need to have built up equity in the property. Many Help to Buy customers will have relied on house prices continuing to rise; however, new-build homes don't always increase in value at the same rate as other homes, so the amount of equity available could in some cases be small.

Calculating the costs

From April, borrowers who took advantage of the scheme at launch will have to start paying 1.75% interest on their government loan. This comes on top of a borrower's other bills such as their mortgage, and at a time when wages are rising only slowly.

New mortgage products

Homeowners faced with the choice of remortgaging or paying expensive loan fees will be pleased to know that new mortgage products designed to meet the needs of Help to Buy borrowers, are coming to the market. These offer borrowers a remortgage option that removes the equity element of the loan and effectively gives them ownership of the whole property.

If you are in this position and would like some advice on the right remortgage options for your financial circumstances, then please do get in touch.

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

MANY HELP TO BUY CUSTOMERS WILL HAVE RELIED ON HOUSE PRICES CONTINUING TO RISE; HOWEVER, NEW BUILD HOMES DON'T ALWAYS INCREASE IN VALUE AT THE SAME RATE AS OTHER HOMES, SO THE AMOUNT OF EQUITY AVAILABLE COULD IN SOME CASES BE SMALL

HOW PROTECTION POLICIES CAN BE TAILORED TO YOUR LIFESTYLE

Protection policies are one of the most important financial products anyone can take out, and one of the best ways of ensuring your family is provided for financially, if one of life's unexpected and unwelcome events should happen. Whilst policies can't lessen the emotional impact of these events, they provide welcome cash to lessen the financial burden.

Protection policies can provide not only a lump sum on death or the diagnosis of a critical illness, they can help provide an income for families hit by an accident, sickness or unemployment, and help parents pass their wealth on to future generations by playing a major role in Inheritance Tax (IHT) planning.

Starting out

It pays to begin thinking about insurance cover once you take on financial responsibilities such as buying a house, or starting a family. If you weren't able to work and earn money due to illness or injury, how long would you be able to survive on savings? Protection polices ensure that if anything were to happen to you, your family wouldn't be left struggling financially. So, you might want to think about income protection and critical illness cover, as well as private health insurance.

Leaving your family provided for

It's important to remember that there is a simple and effective way to legally avoid IHT on any policy payout. Life insurance policies written under trust don't form part of an estate when it comes to calculating IHT. They have another benefit too; such life policy proceeds can be paid out before probate is granted and therefore provide an effective means of getting money quickly into the hands of beneficiaries.

LAND REGISTRY DIGITAL MORTGAGE SERVICE

In a bid to speed up the UK home buying process, HM Land Registry is introducing a number of initiatives from this year, designed to reduce the amount of paperwork involved in buying and selling property.

The Land Registry has begun trialling a digital mortgage service that accepts digital signatures. This move represents a major step in the planned changes that will eventually allow mortgage and conveyancing services to be completely digital. The service, 'Sign Your Mortgage Deed', is initially aimed at homeowners who are remortgaging.

The mortgage deed will be created, signed and registered online. Rather than an ink signature, documents will be signed by users who have confirmed their identity through the Gov.UK Verify service, which is the same procedure that is used by those who need to confirm their identity in order to file a tax return or claim benefits online.

Borrowers will save time as they won't have to get their signatures witnessed or risk losing their documents in the post.

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

RETIRED HOMEOWNERS' WEALTH TOPS £1TN

Since 2010, retired owners have seen their property wealth increase by 41%[1]. This equates to £68,500 per homeowner over 65.

Equity release on the rise
For many people, property represents their largest asset and has a major part to play in their retirement funding. Older people sometimes find themselves living on low incomes whilst living in valuable properties. Downsizing to a smaller property might be the answer for some, but moving home can be a stressful and costly process, and there's a widespread shortage of suitable retirement properties available. That's why equity release, accessing the wealth tied up in a property, has proved popular over the last few years.

You can use the cash released for any purpose you choose. Bolstering pension income, home improvements, making cash gifts to the family, repaying debts, and extended holidays are all uses to which the cash is commonly put.

Advice is essential
If you are considering equity release you will need to take financial advice on which equity release scheme is right for your needs. Lenders may also require you to seek specialist legal advice before you proceed.

Whilst equity release can represent a tax-free way of accessing some of the equity tied up in your property, it also has implications for your estate and your heirs, so it makes sense to discuss matters with your family. If you're thinking of releasing cash from your home, do get in touch.

[1] Key Retirement, Oct 2017

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

Think carefully before securing other debts against your home. Equity released from your home will be secured against it.

HOW TO CLAIM FOR STORM DAMAGE

Many climate experts believe we're likely to experience extremes of weather as a result of global warming. Most household policies cover both flood and storm damage, and can provide emergency accommodation if you need to move out of your home. Damage to the building will be covered by your home insurance provider, while damage to your possessions will be covered by your contents provider, though in many instances your policy will cover both.

If your property is affected, insurers advise that you should contact them as soon as possible, and most have a 24 hour emergency helpline to provide advice and can arrange for major damage to be inspected as soon as possible. Taking photographs or videos will help support your claim.

Don't arrange to have any repair work done without getting the go-ahead from your insurer; if you do, they may not cover the costs you incur. If the damage is severe, insurance companies will often appoint a loss adjuster to assess the damage and liaise with you over the repair work.

LIFE INSURANCE IN A NUTSHELL – WHAT YOU NEED TO KNOW

In simple terms, life insurance is a legal contract between an insurance policyholder and an insurance company. The insurer promises to pay a named beneficiary a sum of money on the death of the insured person, in return for a (usually monthly) payment called the premium.

Choosing the length of cover you need
Many people buy life insurance to protect their families from having to deal with financial burdens if they were to die prematurely. Policies can be for a fixed period, referred to as term insurance, or for the rest of your life, when it's called whole-of-life cover.

Types of policy available
There are three main types of policies that are often recommended. With level term life insurance, the cover remains constant throughout the term of the policy. With decreasing term insurance, the level of cover gradually reduces in line with the outstanding amount of your mortgage. The third type, whole-of-life, doesn't normally have an end date, so premiums are paid until you die, at which point the policy pays out (sometimes premiums end at a certain age, say 80, but cover continues until your death).

If you want to cover your mortgage – which may typically last 25 years – or provide a safety net for your family while they are growing up, then term insurance is usually more appropriate as it can be tailored to suit your needs and time horizon. If you want to leave money to your family beyond a fixed period, a whole-of-life-policy could be right for your needs. We can offer you all the advice you need to make the right choice, so do get in touch.

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

LOAN-TO-VALUE RATIO – WHAT DOES THIS MEAN FOR ME?

If you are thinking about a mortgage, the loan-to-value ratio, the LTV, is an important factor that lenders will consider when reviewing your mortgage application and deciding whether to grant you a loan or not. It will influence the interest rate you are likely to be charged and relates to the size of the mortgage you need in relation to the value of the property you're buying.

For example, if you want to buy a property worth £300,000, and you have £60,000 put aside to use as a deposit, you'll need a loan of £240,000 in order to complete your purchase. This means that your loan-to-value ratio will be 80%, as £240,000 represents 80% of £300,000.

As you'd expect, the higher the ratio, the riskier it is for the lender offering the mortgage, and hence the interest rate charged on your mortgage is likely to be higher to reflect this fact. Conversely, low LTV ratios represent less of a risk, and are therefore likely to attract lower interest rates.

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

HOUSE PRICES – WHERE ARE WE NOW?

After many years of rising prices, the UK housing market is showing signs of a slowdown.

Figures from the Halifax House Price Index[1], show that transaction levels have fallen and mortgage approvals are down. Halifax Managing Director, Russell Galley, commented: *"House prices continue to remain broadly flat, as they have since the end of last year. The annual rate of growth has slowed from 2.2% in January to 1.8% in February, the lowest rate of growth since March 2013".*

Experts predict that housing market performance in the months ahead is likely to be heavily influenced by events unfolding in the wider economy. UK economic growth is predicted to be modest, and the Bank of England has hinted that further rate rises could be in the pipeline, all of which is likely to put additional financial pressure on borrowers, limiting the amount they can afford to spend on housing. Then there's uncertainty over Brexit, with the likely outcome of negotiations proving hard for anyone to gauge at present.

However, with employment levels remaining high and mortgage rates low by historic standards, any slowdown in price growth is expected to be relatively gentle. The UK's chronic housing shortage is likely to shore up prices for some time to come, and none of the major mortgage lenders is currently expecting prices to stage a major decline.

Landlords playing a pivotal role

Over the last few years, the UK housing market has seen the growing phenomenon of the professional buy-to-let landlord. Now, feeling the effects of the implementation of new tax rules on mortgage interest tax relief and the additional rate of stamp duty on second or buy-to-let homes, buy-to-let landlords may not in future be as numerous as they once were.

According to figures from estate agents Countrywide[2], in 2015, landlords bought 16.3% of homes sold in the UK. Last year, the figure was down to 12.5%. If interest rates rise further during 2018, then landlords will have to decide whether it's financially viable for them to continue to own properties that are bringing in diminishing returns, and some may decide to sell up, releasing much-needed homes back onto the market.

In the past few years, first-time buyers have often found themselves in competition with buy-to-let landlords for the same entry-level properties. However, the big question will then be whether already financially squeezed first-time buyers are in a position to buy them.

[1] Halifax House Price Index, Mar 2018
[2] Countrywide Monthly Lettings Index, Jan 2018

EXPERTS PREDICT THAT HOUSING MARKET PERFORMANCE IN THE MONTHS AHEAD IS LIKELY TO BE HEAVILY INFLUENCED BY EVENTS UNFOLDING IN THE WIDER ECONOMY. UK ECONOMIC GROWTH IS PREDICTED TO BE MODEST, AND THE BANK OF ENGLAND HAS HINTED THAT FURTHER RATE RISES COULD BE IN THE PIPELINE, ALL OF WHICH IS LIKELY TO PUT ADDITIONAL FINANCIAL PRESSURE ON BORROWERS, LIMITING THE AMOUNT THEY CAN AFFORD TO SPEND ON HOUSING

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

MORTGAGE PAYMENT PROTECTION INSURANCE – A VALUABLE SAFETY NET FOR FAMILIES

This type of protection policy is designed to cover the cost of your mortgage payments if you're sick, have an accident or become unemployed and can't work. Whether you have a repayment or an interest-only mortgage, it's important to have plans in place to protect the balance of your mortgage – after all, you'd want to safeguard your loved ones by keeping a roof over their heads.

People sometimes confuse mortgage payment protection with payment protection insurance, or PPI as it is commonly referred to. PPI is completely different and designed to cover monthly payments for credit cards, personal loans and other types of unsecured borrowing, so don't let the scandal surrounding PPI put you off taking out insurance to protect your mortgage payments.

Sick pay

With Statutory Sick Pay set at just £92.05 per week and only payable for up to 28 weeks, many families would struggle to meet their mortgage payments if disaster were to strike.

If you'd struggle to afford your mortgage payments if illness, accident or unemployment were to strike, or you're self-employed and so don't qualify for sick pay or redundancy money, then mortgage payment protection cover could be right for you.

Policies can cover your mortgage payments in full as long as they don't exceed 65% of your gross annual salary, and the amount payable under the policy is usually around £1,500 to £2,000 per month. Most policies start paying out either 31 or 60 days after you are unable to work, and will generally pay out for up to 12 months, or until you return to work, whichever is sooner. Policies don't usually allow claims for unemployment within the first three to six months of the policy being taken out.

There are other providers of Payment Protection Insurance Short-Term Income Protection and other products designed to protect you against loss of income. For impartial information about insurance, please visit the website at www.moneyadviceservice.org.uk.

A THIRD OF PROPERTY SELLERS HAVE CUT THEIR ASKING PRICE

In a sign that the UK housing market may be slowing down, research carried out at the end of December on behalf of the online property listing site, Zoopla, showed that 35%[1] of sellers have reduced their prices by an average of just over £25,000. Home owners who desperately need to make their move are reappraising their asking prices to attract a sale, rather than running the risk of their property languishing on the market for months.

Greater London feeling the effects

This trend is even more marked in the London area where uncertainty over Brexit and the rise in stamp duty have cooled the market. Almost 40% of properties for sale in Greater London have been reduced on average by 7.3%, equivalent to about £53,000 being wiped off the asking price.

It seems that sellers are taking a more realistic view on pricing which could spell better news for first-time buyers, and significantly improve their chances of getting onto the housing ladder.

[1] Zoopla, Dec 2017