Spring 2018

Mortgage & Protection news

The bulletin from Modern Mortgage Solutions Ltd

Rising interest rates for mortgages may well be an issue to consider this year.

» In March, the Bank of England left interest rates on hold at 0.5%, but hinted that a rise is coming. Although it did add that any future increases would be at a gradual pace and to a limited extent.

Elsewhere, a poll by Reuters (earlier in March) set out that 36 out of 63 economists felt that the Base Rate may increase to 0.75% in May. *(Source: Reuters poll, March 2018)*

Interesting times

Issues to consider

Inflation stood at 2.7% in February, and is expected to ease further in the short term, although to remain above the 2% target. *(Source: Bank of England, Monetary Policy Committee, March 2018)*

To some extent, rises in the Base Rate are designed to curb inflation; if inflation reduces naturally, then action may not be required.

However, Brexit and other factors could influence future decisions. For example, pay growth continues to pick up and now sits at around the level of inflation.* An improving economic outlook may create an environment to raise interest rates. Also, a Base Rate rise could give the Bank of England some room to manoeuvre to help counter the next economic slowdown.

*(Source: *Office for National Statistics, March 2018 release)*

How it could affect you

If rises do occur, then it may be a concern for many, and more immediately for the **4 million or so who currently sit on a variable rate with their lender.**

(Source: UK Finance, November 2017)

Recently, there have been slight increases across some mortgage products, although let's not forget that, in many cases, rates remain better than they were against the comparable period three years ago.

(Source: Mortgage Brain, January 2018 release)

Other key pointers

Another issue to think about is how house prices could move across the year. Nationwide felt that annual UK **house prices** may only rise around 1% in 2018 (albeit with regional variations), with 3-4% over the longer term. So far though, we have seen a 2.2% UK house price increase in the year to February 2018.

(Sources: Nationwide, December 2017 & March 2018 releases)

The government is also committed to increasing the number of **new homes** that are built each year. In many cases this will assist **first-time buyers,** who continue to benefit from various government initiatives.

Don't forget Protection!

It's understandable that you might feel you need to focus all your energies on securing the mortgage you need.

However if, down the line, you were off work long-term due to an injury or serious illness, or faced an untimely death - you or your family may be very grateful that there was a **protection policy** in place.

You might already be covered, to some extent, but circumstances do change, so it could make sense to have a conversation about this, in addition to any plans regarding your borrowing needs.

Talk to us to find out more.

■ YOU MAY HAVE TO PAY AN EARLY REPAYMENT CHARGE TO YOUR EXISTING LENDER IF YOU REMORTGAGE.

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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.**

ADVISER SUPPORT

Did you know that around 80% of all mortgages go through intermediaries (such as us)? *(Source: iress, Mortgage Efficiency Survey, Sept. 2017)*

When we assess your needs, and identify suitable solutions across the wider marketplace, we naturally embrace technology to help us come to our conclusions. However, part of the reason why intermediaries account for around 8 in 10 of all mortgage transactions is that we **deliver a human face** to enable you to fully understand the options on offer from the lenders and protection providers.

Where we stand in the mix

We also recognise that most of you will have time-pressed lives. In which case, we'd endeavour to help reduce the hassle of filling out forms and applications. Furthermore, we would hold your hand throughout the process, and try to liaise with various parties along the way.

By talking to us, it may also help protect your credit score, as we'd have a better feel for issues that may score you down.

Overall, we would aim to inform and reassure you as we work towards identifying the most suitable solution(s) to meet your specific needs.

Additionally, as **we work primarily on your behalf**, which enables us to take a view of the wider marketplace rather than just what's on offer from one high street lender, or one insurance provider.

Also, we have a wide range of market experience, as our client base covers a number of areas, such as those who:

- are new to home ownership.
- have a home and may want to move up (or down) the property ladder.
- want to stay put and seek out a better deal, or require further funds.
- are active as a buy-to-let landlord.

Smoothing your path

We would also help navigate you through the raft of tighter rules, which now apply to 'evidencing of income' and 'affordability' measures. This is in place to ensure that borrowers are stress-tested to see if they can, not only meet current payments, but are also able to cope should the interest rate rise.

In this respect, different lenders may interpret the rules in alternate ways, meaning that if you can't get the loan you need from one, the answer may not be the same elsewhere. Yet another reason for securing advice from someone that is operating in this marketplace, day-in, day-out.

Please get in touch to hear more, and do remember we don't just advise on mortgages, there's protection, and more. You may have to pay an early repayment charge to your existing lender if you remortgage.

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Able to RELAX & RECUPERATE?

Many of us (albeit not enough) have life cover in place, should the worst occur, but what if you didn't die, and instead found yourself off work for a long period, due to illness or injury. **INCOME PROTECTION** meets this need.

An Income Protection plan is designed to pay out a tax-free monthly sum in the event that you can't work due to illness or injury. The maximum amount you can generally opt for is up to about 60% of your monthly income before tax, although if you can manage with a lower amount than this, then it would be reflected in a lower premium charge.

Of course, you may think that being off work long-term due to illness or injury is primarily an issue for those nearing retirement. If so, think again, as the average age at the time of the initial claim comes from those in their mid-40s!

When taking out the policy you should agree a deferment period, as you may be entitled to employee benefits and state support for a period of time. So do check what's on offer, if anything, from your employer. From here we can work out the best time for the policy to kick in. The longer you defer starting the payouts, the more affordable the premium should be.

And do be honest about your medical history when completing your application.

Once the monthly payments do start, they could continue until you're well enough to return to work; have retired; the policy ends; or on death - whichever occurs first.

Income Protection is a complex product, with a vast array of options, so it is essential that you take advice. Income Protection (with no investment link) has no cash in value at any time and will cease at the end of the term. If you stop paying premiums your cover may end.

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

In January 2018, remortgaging was 19.1% higher than the same month a year earlier. In fact, this was the highest monthly number of remortgages since November 2008!
(Source: UK Finance, January 2018 figures, released March 2018)

» In certain cases, the desire to remortgage may be a reactive one such as coming towards the end of your deal period, or that you're already sitting on your lender's Standard Variable Rate (SVR).

Alternatively, it could be for proactive reasons such as wanting to improve on your current deal, looking to move, or perhaps to raise some additional funds for much-needed home improvements.

End of deal period

Possibly partly due to some excellent rates over the last few years, a number of the borrowers who remortgaged may now be coming towards the end of two or three-year deals. In fact, it is estimated that around 1.5 million residential mortgages will come to the end of their deal period in 2018.*

Within this mix, around 80% may have taken out a fixed rate deal, meaning that the vast majority won't have faced any interest moves until the end of their deal period.** *(Source: UK Finance/CML, *March 2018 analysis, **July 2017 report)*

Dependent on the type of deal taken out a few years back, some may be pleasantly surprised to see that what's on offer.

On the lender's SVR

Alternatively, if you're on an SVR (or about to revert to it), then you are likely to be paying out more for your loan.

In some cases, there are people who have remained on it who feel they would not be able to secure a new deal due to the more stringent requirements that are now in place. That may be the case, but just as easily it might not. Also, other factors such as your property possibly now being worth more, may strengthen your ability to borrow. If nothing else, it makes sense to have a chat.

Improve, not move

Instead of moving, you may want to remain where you are. In which case, you might have had enough of holding back on your spending over the last few years and want, or need, to undertake some of the bigger jobs around your home. This may require additional funds to help make it happen.

Secure a more suitable deal

This could relate to cost savings, or perhaps changing the structure of your deal. For example, it could mean moving to a **fixed** or **variable tracker** mortgage.

You may want a deal where you have greater flexibility - perhaps to **overpay,** or need the option of a payment holiday.

Or, you may currently be sitting on an **interest-only deal,** and need to consider if the discipline of a 'repayment' mortgage is now a better option - where you'll be paying more, as part of the capital will be paid off as you go along. Check out the mortgage calculator to see how this may pan out.

Alternatively, you may decide that you want a different length of **deal period term** - shorter, to give you greater flexibility and avoid the more onerous early repayment charges, or longer to help you to budget better across the next 5+ years.

Whatever your requirements are, do get in touch with us to find out more.

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Mortgage Calculator

- could it work for you?

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

Interest rate %	Interest-only* £	Repayment £
0.25	0.21	3.44
0.50	0.42	3.55
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

Here's how to use the mortgage payments calculator: A £100,000 mortgage over 25 years, charged at a 2% interest rate would cost 100 x £4.24 (for Repayment) = £424 per month.

* 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.

In 2017 there were 365,000 First-Time Buyer property purchases, the highest number since 2006.

(Source: UK Finance, February 2018 release)

YOUR FIRST-HOME

» Much has happened over the last few years to help first-time buyers onto the property ladder. On the positive side there have been various government initiatives, such as **Help-to-Buy,** enabling first-timers to gain access to more affordable mortgage deals with, in some cases, only a 5% deposit. However, even a 5% deposit equates to saving around £8,250 when considering that the average first-time buyer UK property price sits at about £165,000. *(Source: UK Finance, January 2018 analysis, released March 2018)*

To achieve this may require a fair amount of saving up, particularly when many of those wanting to buy a property are, at the same time, probably facing monthly rental costs, and other expenses. In this respect, some will benefit from the **Bank of Mum & Dad** (plus possible input from other family members too). Their contribution may assist with a larger deposit percentage, as research shows that a contribution was made to almost 300,000 property purchases in 2017, equating to an average of over £21,000 per home. *(Source: Legal & General, Bank of Mum & Dad report 2017)*

SUPPORT FOR YOU?

(This relates to the situation for England, but similar schemes also operate throughout the UK. Various rules will apply to all schemes)

HELP-TO-BUY: EQUITY LOAN SCHEME

- In this scenario the government lends the borrower up to 20% (up to 40% for London) of the cost of a newly-built home (up to £600,000 in value). This is not just designed for first-time buyers.
- For example, the borrower may only need a 5% cash deposit, and a 75% LTV mortgage (55% in London) to make up the rest.
- It needs to be the only property you own, and can't be sub-let or rented out.
- The borrower won't be charged fees on the government loan figure for the first five years of owning the home.
- The government would then get the percentage it loaned of the future market value (or after 25 years, if not sold before then).

HELP-TO-BUY: SHARED OWNERSHIP SCHEME

- If the borrower is a first-time buyer; or used to own a home, but can't afford one now; or is an existing shared owner; then this scheme may offer the chance to buy a share of the home (between 25%-75%) and pay rent on the remaining proportion.
- Then down the line, the borrower could purchase a bigger share of the property.

To put this into perspective, according to Nationwide, it may take around 8-10 years to personally save for a 20% deposit, meaning it could still take a couple of years to get to the entry point 5%. *(Source: Nationwide, 2017 report, December 2017)*

And there's more...

With the government acutely aware that more needs to be done to assist first-time buyers, it announced back in November 2017 that **Stamp Duty** was scrapped (across most of the UK) for 80% of first-time buyers, with a reduction for most of the rest. *(Source: HM Treasury, Autumn Budget, November 2017)*

More recently, the Prime Minister announced a new initiative (applicable to England), to get planners, developers and councils to **build more homes, more quickly, in the places that people want to live.** Prior to this, we've already seen the biggest increase in housing supply in England for almost a decade - with over 217,000 new homes built in 2017, with a target of 300,000 homes a year by the mid-2020s. *(Source: gov.uk, March 2018 release)*

Additionally, even though further Base Rate increases may be on the horizon, it is still a period of fairly low interest rates, so maybe now's the time to act.

The next step

As shown above, prospects may have improved for the first-timers who have been saving for (or have access to) a deposit. Professional advice would then help them along the way, in order to identify the most suitable deal, and to navigate a way through the affordability, evidencing of income and credit rating hoops. This is where we can help.

Please talk to us to see if we can help you (or a family member) step onto the property-owning ladder.

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

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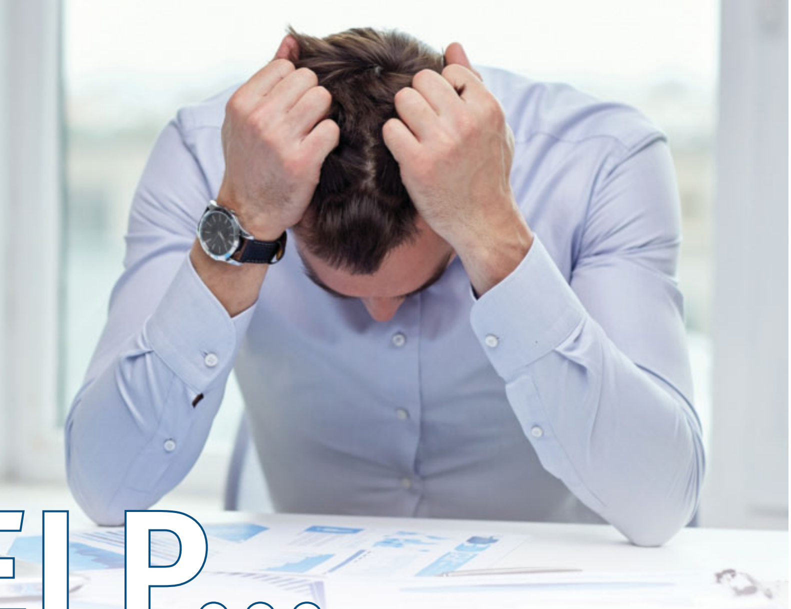

There's no avoiding it, the **BUY-TO-LET** market has faced a torrid period of change over the last couple of years.

LET US HELP...

» If there was ever a time for landlords to seek advice, it's now, in order to establish the best way forward whether you have one or two rental properties, or a large portfolio to deal with.

Also, let's not lose sight that this still remains a **sizeable and important marketplace,** that's meeting the demands of many who don't want, or can't afford, to step onto the property-owning ladder.

According to a February 2018 report by the Intermediary Mortgage Lenders Association (IMLA), between 2000 and 2017 buy-to-let landlords invested £289bn in the sector, and met rising tenant demand by **bringing 1.8m properties into the rental marketplace.**

To some extent, the sector became 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 was viewed as a decent revenue source for the government's coffers. At the same time it was seen by the Bank of England to be more likely to be cyclical in nature, which it felt could impact upon a measured recovery in the economy.

The effect of the raft of tax and regulatory changes - introduced since July 2015 - is also reflected in the same IMLA report, which showed that net investment in buy-to-let property, fell from £25bn in 2015 to just £5bn in 2017!

Key developments over the last few years

There are numerous initiatives to get to grips with, such as the **stamp duty increase,** and **stepped reduction in tax relief.**

Then, from the beginning of 2017, stricter regulatory rules were introduced, requiring lenders to **stress-test likely future interest rates** over a five-year period (unless the loan rate is fixed or capped for five years or more).

This was followed by new special underwriting rules for those landlords that have a **portfolio of four, or more, managed properties.** Broadly, this means that if these landlords are seeking a loan they may now have to provide information across their whole portfolio, to the level of detail set out in the box item above.

How we can help...

Landlords will need to consider a number of options. For example, they could **sell off some properties,** create a **limited company** vehicle into which the portfolio could be placed, look to **raise rents,** and so on. Obviously, it's important that you **obtain tax advice,** and for other aspects we may be able to deliver much-needed support. As we operate in the mortgage lending environment, day-in, day-out, we would make the process less painful, and identify the best way forward to meet your needs, particularly across a period when a number of loans may be coming to the end of their deal period.

PORTFOLIO LANDLORDS - key information required

- Landlord's buy-to-let experience, full portfolio of properties, and outstanding mortgages.
- A business plan.
- An asset and liability statement (including any tax liability).
- A cash flow analysis.

From here, lenders would not only 'stress-test' affordability against the property for which you're trying to raise finance, but also against the whole background portfolio.

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

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Protect your FAMILY

Despite healthier lifestyles and improving medical know-how, on average, around 125 adults, aged 18-55, still die every day.

(Source: Office for National Statistics, 2016 UK figures, released July 2017)

» If a main wage earner in a family with young children died, would the family be able to cope financially, quite apart from the emotional turmoil?

Whilst there may be life cover in place to help pay off the mortgage, what about ongoing everyday items such as food, clothes, utility bills, childcare, or other expenses like holidays and university costs?

This is where a **Family Income Benefit** plan could deliver much-needed support. Unlike normal life cover - which is designed to pay out a lump sum on death (and may be earmarked to pay off the mortgage) - family income benefit provides a regular tax-free income for your loved ones from the time of the claim to the end of the plan term.

Why take it out?

If you're a parent with children at home, then it may make sense to have a specific plan in place to help meet their needs, in addition to any general life cover you may have.

To reflect this timeframe, family income benefit is often taken out over a 10 to 20-year term, or whatever may be appropriate in your circumstances. The idea is that should you have to claim, then it is in place to pay out until the children have grown up.

How it works

It's generally viewed as a good value plan. This is because the potential 'total' payout over time decreases the further through the policy you get, which is reflected in a lower premium cost. You decide how much cover you may need (within the terms of the chosen policy) and for how long you want the cover to run.

For example, if you took out a 20-year term, which was set up to pay out £20,000/year and it was claimed against after one year, then the family would receive £20,000/year for the next 19 years, equating to a total payout of £380,000 (if there was no index-linking).

However, if for the same plan, there wasn't a claim until 18 years into the policy term, the total payout would be just £40,000.

FAMILY INCOME BENEFIT

- Help secure your family's future with a regular income.
- As the payout exposure for the insurer reduces over the time of policy period, up to the point of claiming (if at all), the level of premium you pay reflects this.

If, fortunately, there was no claim at all within the 20-year period, then the policy simply runs the whole term without any payout. Hence the reason that the monthly cost of this cover may be more affordable, which could make the difference for some between taking out the insurance or not.

To conclude

This type of policy shouldn't be taken out to cover your mortgage or other debts, as insurance that pays out a lump sum is usually more appropriate for that. However, family income benefit is worth considering if you want to make sure your family receives an income for a given time, should you or your partner die.

Why not talk to us to find out more.

The plan will have no cash in value at any time and will cease at the end of the term. If premiums are not maintained, then cover will lapse.

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

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■ The contents of this newsletter are believed to be correct at the date of publication (March 2018).

■ 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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