Mortgage & Protection news

The bulletin from DDM Financial

DDM FINANCIAL

Annual UK house price growth (albeit with regional variations) is expected to be around 1% in 2018 and 3-4% over the longer term, according to Nationwide *(December 2017 release).*

» This compares to a 2.6% house price growth in 2017.* Meanwhile, annual gross mortgage lending is currently projected to rise by around 2% in 2018 to £260bn.**

*(Sources: *Nationwide House Price Index, December 2017; **UK Finance, December 2017)*

Bank of England Rate Rise

Elsewhere, the November 2017 increase to 0.5% for the Bank of England's Base Rate was the first such rise since July 2007. Back then the rate hit 5.75%, although for much of the following decade, the Base Rate did sit at 0.5%. *(Source: bankofengland.co.uk, download of the official Bank Rate history data from 1694 to November 2017)*

So it's not panic stations, and the Bank of England regularly says that any rise would be measured, and increase slowly over time. However, it does signal intent and will be a concern for some, such as the 3.7 million or more on a variable rate with their lender. *(Source: UK Finance, November 2017)*

The Budget - Stamp Duty

Another issue to consider is the **stamp duty change for first-time buyers,** announced in the November 2017 Budget. The chancellor set out that it was abolished on all first-time buyer purchases up to £300,000. For first-time buyers of homes worth between £300,001 and £500,000, they too will not pay stamp duty on the initial £300,000, but will pay it on the price above that. There will be no relief though for first-timers buying a property over £500,000.

****Immediately applicable in England, Wales & N. Ireland.*

The importance of Advice

In short, house price moves, Bank Rate rise, and Budget announcements are simply further aspects to consider amongst the on-going issues of Brexit, rising inflation, and the overall economic conditions for the UK.

Of course, you may be perfectly happy with your current situation and the deal that you're on. However, for others these events may be a wake-up call, which prompts the need to have a conversation, such as:

1. You're approaching the **end of your mortgage deal period,** and want to chat through the current deals on offer.

2. You might simply want to **change your existing arrangement,** possibly to raise further funds, or feel that it may be financially beneficial (even when factoring in any applicable early repayment charges).

3. A **house move** may be on the cards, and you might require a larger mortgage.

4. You may be sitting on your lender's **Standard Variable Rate,** and could want to act, or perhaps feel (possibly wrongly) that you may not meet the current affordability criteria.

5. You're a **first-time buyer** who has saved up a deposit, and is keen to jump onto the property ladder, and perhaps take advantage of the stamp duty changes.

6. Or you're a **landlord** - or prospective one - in which case it would be wise to talk to us, as so much is occurring in this sector.

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

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

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

Tel : 0845 4 599 499
Email : enquiry@ddmfinancial.co.uk
Head Office : 46 Oswald Road, Scunthorpe DN15 7PQ

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.**

■ DDM Financial is a trading name of James Freeman Ltd, which is an appointed representative of Openwork Limited which is authorised and regulated by the Financial Conduct Authority.

Ready, Steady...

Over the last year, the number of loans for remortgaging have been at record levels.

(Source: UK Finance, December 2017 release, data for October 2017)

Even with the Bank Rate rise, there are still some decent deals on offer, possibly partly driven by lender appetite to compete for your business.

Ready to remortgage?

There are numerous reasons why you might decide that remortgaging is now desirable:

Home improvements - You may 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 that you've put off. Also, you may recognise that in addition to creating a better living environment, it could add value to your property.

Securing a better deal - If you are coming towards the end of your deal period, you may be pleasantly surprised when you see what's on offer, even though some lenders have upped their rates on selected deals. If it works out better for you, then you could even consider maintaining your current payments, which should help you along the way to paying off your mortgage sooner than expected.

Or you might already be sitting on your lender's Standard Variable Rate (SVR), in which case you may be paying out a lot more for your loan. In some cases, there will be people who feel that they wouldn't meet the stringent requirements to secure a new deal. That may be the case, but just as easily it may not. Additionally, certain things could now be working in your favour, such as your property may be worth more.

Change the nature of your deal - You may want the flexibility of some variable rate products (where the interest rate could move around dependent on market factors), or may be considering a fixed rate deal (where it remains the same across the loan deal period).

Alternatively, you may decide that you want a different length of deal 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.

Or, you may currently sit 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 calculation tool to see how this may pan out.

But it's simply too much hassle - You may not have a great desire to sift through the numerous lenders, their equally extensive range of product choices, and then try meet their affordability criteria.

That's where we can help, with access to over 50 lenders, we can hold your hand through this process, and hopefully make it easier for you.

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

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

Mortgage Calculation

- 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 calculation tool: 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.

Check your **Credit Rating**

Your personal credit rating will have an impact on loan decisions taken by the lenders, so it makes sense to keep on top of it.

The role of a credit score is to try to predict your future behaviour, which means that people who have a poor score may suffer, as can those who have no credit history at all! Each time you apply for credit, this might be recorded on the files held by the credit reference agencies:

Experian - Tel: 0800 013 88 88 - www.experian.co.uk

Equifax - Tel: 0800 014 2955 - www.equifax.co.uk

Callcredit - Tel: 0330 024 7574 - www.callcredit.co.uk

As every lender has its own 'perfect customer' profile, a rejection from one isn't necessarily a rejection from all. By talking to us we'll have a better feel for items which may score you down and where you might get a more favourable response for credit. We should also be able to limit the number of applications made - since too many could result in a lower score.

Cherish & Protect

The benefit to you of securing a **mortgage** loan is patently obvious at the outset. The funds will allow you to either buy, or remain in your home. Conversely, it's most likely that you'll only see the 'pay-out' benefits of taking out a **protection** policy somewhat down the line - if at all.

» The upshot of this is that you may think it's something that you can put aside to come back to when the issue seems more pressing. But unfortunately, that may then be too late.

It's often said about protection policies that: *Surely it's better to have something in place and hopefully not need it, than to need something and unfortunately not have it.*

Many, but perhaps not enough, take on board this advice, as the protection industry is awash with real-life scenarios. These demonstrate that for those with a policy in place, it may have assisted a bereaved family, and kept a roof over their head, or perhaps helped a planholder to get back on their feet after a serious illness or injury.

As for what to opt for, there isn't really a one-size fits all type of product offering, but broadly and simplistically, there are three key strands to consider:

- Life Assurance that pays out a lump sum when you die.
- Critical Illness cover that pays out a lump sum when you have a specified serious illness.
- And Income Protection that pays you a regular amount when you can't work due to illness or injury.

Of course, in reality it's far more complex than that, and you're faced by insurers, with varying plans and numerous options within that. And do remember, you need to be honest when applying at the outset regarding any health issues.

Added value benefits...

The industry recognises that a payout upon claiming may be the initial driver in setting up a policy. But it's also aware that there is a real benefit - for both the insured and the insurer - if a relationship is maintained throughout the term of the policy, as reflected by the following examples:

- Incentives to keep healthy - including discounts off health club membership.
- Specialist support - GP/nurse helplines, telephone counselling, carer support services, consumer rights, debt management advice, early intervention and rehabilitation services and so on.
- The introduction of wearable technology - reinforcing a healthier lifestyle.

Some of the above may help you on the road to recovery, or to adopt a healthier lifestyle. Please get in touch to hear more. As with all insurance policies, terms, conditions and exclusions will apply.

Protection claims Paid Out

LIFE COVER	CRITICAL ILLNESS	INCOME PROTECTION
■ 99.5% of all Life claims ■ Average payout of: £75,000 (term) £4,750 (whole of life)	■ 92.2% of all Critical Illness claims ■ Average payout of £67,700	■ 84.7% of all Income Protection claims ■ Average payout over 164 weeks of £32,800

(Source: Association of British Insurers, latest annual data, May 2017 release)

FAMILY PLANNING

The following are two key considerations that can work alongside your Will.

Trust Planning

A Trust is a legal arrangement that can help ensure that **life policies,** for example, are paid out speedily to the beneficiaries. This would mean that there's one less issue to worry about at a difficult time for the family.

A Trust can also be used to protect beneficiaries who might be too young to handle their affairs.

Consider the children

If a Guardianship arrangement is not in place to protect young children - and both parents were to sadly die at the same time - 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 issues may occur if a couple aren't married, where the mother dies and she 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.

Despite the many challenges, **BUY-TO-LET** remains a sizeable part of the mortgage lending marketplace.

Feeling Unloved?

It's sizeable because the rental sector is likely to continue to be fuelled by demand brought about by issues such as; not enough homes being built; and the deposit and affordability concerns faced by tenants who may want to leave the rental sector and become homeowners.

Additionally, the pension freedoms for the 55+'s may result in some opting to become landlords, and they, like others could benefit from the buy-to-let mortgage deals out there.

Recent initiatives

HOWEVER, there is no doubt that landlords may feel fairly unloved at the moment. No sooner had they come to terms with the stamp duty increase, and the stepped reduction in tax relief, they then had to take on board the greater regulatory requirements brought in at the start of 2017.

The initial developments required lenders to consider likely future interest rates over a five-year period (unless the loan rate is fixed or capped for five years or more). Specifically lenders have to:

- Stress test their lending against an expectation of an increase in buy-to-let mortgage rates of at least 2%.
- Assume a minimum rate of 5.5%, even if the stress test of a 2% increase would actually produce a lower rate than that.

Later in the year, the Prudential Regulation Authority (PRA) put in place special underwriting rules for those landlords that have a portfolio of four or more managed properties.

Portfolio Landlords

Broadly, what this initiative means is that every landlord seeking a loan (and has four or more properties) may now have to provide the following information across their whole portfolio:

- 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.

SOMETHING ELSE TO CONSIDER?

Some landlords have opted for, or are considering, placing their portfolio within a 'limited company' status, as this may be beneficial with regard to mitigating the impact of the tax initiatives, and that limited companies are less affected by the PRA regulations.
However, this may not be right option for some, so it's essential that you talk to both us, and your accountant.

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.

In some instances, the lender may also insist that no sole property within the background portfolio can have less than 100% rental coverage.

Elsewhere, many lenders may adopt a 'proportionate' approach which means that they would require more information from a landlord with 30 properties, than one with just five.

How we can help...

It may all seem quite daunting, but we operate in this environment day in, day out, so will know how to make the process less painful, identify the best type of approach for you, and highlight the key elements of your portfolio that need to be monitored.

To some extent, once we've gone through the process, much of the necessary information should then be in place (and easily updated and adapted), for any future mortgage, or remortgage needs.

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.

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

Published by BlueStone Publishing.
Email: info@bluestonepublishing.co.uk

■ 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: 0845 4 599 499 Email: enquiry@ddmfinancial.co.uk