Summer 2017

Mortgage & Protection news

The newsletter from Apple Financial Solutions

The last few years have delivered a substantial period of change. That's why it's essential that you consider taking professional financial advice.

» This advice could relate to the funding required to purchase your next home, improve your current one, buy your first place, or maybe secure one to rent out. Or perhaps it's simply a desire to take advantage of the decent rates out there, and get a better mortgage deal than the one you currently have. If so, we can help.

Additionally, we can also identify suitable products to protect you (and your family) should you be unable to work, face a serious illness, or worse still, an untimely death. Sober thoughts we know, but in situations such as this, it's far better to have a policy in place, and not need it, than to need one, and sadly not have it.

Current borrowing climate

Quite apart from the wider implications of Brexit, the General Election fall-out, rising inflation, and the overall economy, much has occurred over the last few years to make it tougher to source a mortgage (or some other types of loan) due to the stricter evidencing of income and the affordability issues. In June, the Bank of England further tightened its recommendations to lenders regarding affordability tests.

For landlords (or for those thinking of entering this arena) there have been even more initiatives, such as higher stamp duty, tax changes, and most recently new stress tests and affordability rules.

However, in the midst of all this - and perhaps partly because of the above - the Bank of England Bank Rate remains very low, and there are **some excellent mortgage deals** on offer for both buy-to-let and residential borrowers.

It's not solely about decent deals, as there are a myriad of product choices that can enable us to identify the loan most suited to your needs. For example, you may want to overpay when you can (thereby making savings in the longer-term). And product innovations are not solely confined to loans, it also applies to what's on offer on the protection front.

Why act now?

Obviously, taking on debt at any time requires consideration, and more so with the current instability. However, for a range of groups, there may be good reasons why it could make sense to act:

- For first-time buyers, there are numerous schemes on offer.
- For the 3-4 million who are on their lender's Standard Variable Rate (at an average rate of 4.56%*), it may make sense to try to take advantage of the current deals.
- For those coming to the end of 2 or 3-year deals, they may find that rates are generally lower than a few years back.**
- For landlords, and in particular those with 4 or more mortgaged properties, who may be thinking about remortgaging, it might be an idea to consider doing this ahead of more onerous rules from September 2017.

Do read on, or please get in touch.

*(Sources: * Which.co.uk, April 2016 & March 2017, **Mortgage Brain, comparison of April 2017 vs. April 2014 & 2015)*

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

Apple Financial Solutions

34 Parkland Avenue, Upminster RM14 2EX

Tel: 01708 641155
Email: enquiries@applefinancial.org
Twitter: https://twitter.com/FinancialApple
Web: www.applefinancial.org

Welcome....

to this newsletter, which covers what we believe are some of the key issues of the moment - and sets out how we **may help you.**

- Apple Financial Solutions is an Appointed Representative of Pink Home Loans. Pink Home Loans is a trading name of Advance Mortgage Funding Limited.
- **There may be a fee for mortgage advice. The precise amount will depend on your circumstances, but we estimate that it will be £295 for a residential mortgage & £500 for a Buy-to-Let mortgage.**
- **Your home may be repossessed if you do not keep up repayments on your mortgage.**

Make your home YOUR OWN

Many of you may feel that you've applied your own form of austerity for long enough and might be keen to get on with much-needed or desired improvements around your home.

» Your primary motivation should be to opt for improvements that best meet your needs, or those of your family. However, don't lose sight of the financial benefits that may accrue too - particularly if, at the back of your mind, you want to make your home more saleable.

Value added choices...

What adds value to your property often also improves your quality of life. Adding extra space to your home tends to be the most financially lucrative - whether that's building upwards, with a loft conversion, building outwards with an extension, or converting the garage.

According to Nationwide, as a rule of thumb a 10% increase in floor space adds about 5% to the price of a typical house. Adding a double bedroom to a 2-bed house, could increase its value by around 11%. In the case of a loft conversion (or extension) incorporating a double bedroom and bathroom, this could add about 22% to the value of a 3-bed, 1 bathroom house.*

Consider the basics

Before you embark on obvious pleasing developments, consider any structural problems, such as a leaking roof, and get them sorted first, as it would be a lot more disruptive if done after the event.

Also, in some instances, simply obtain planning permission, ensuring that it's still in place when you come to sell, as that can also add value to your property.

Securing the extra funding

Dependent on the amount you require, the two obvious routes are remortgaging, or seeking an additional loan. The good news is that whilst you'd need to meet the affordability criteria, there are some excellent deals on offer - and in many cases, better than 12 months ago.**

Conversely, if you feel you may struggle to raise more funds, then do assess your current deal. For example, if you're on your lender's Standard Variable Rate, then the possible savings each month from seeking out a better deal, may go some way towards helping to cover the costs of the smaller jobs around your home.

*(Sources: *Nationwide, April 2016 release; **Mortgage Brain, April 2017 release)*

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.

PROTECTION - dispelling myths

■ £13m a day paid out in 2016.

■ 97.3% of all protection claims met.

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

If you faced an untimely death, or were unable to work due to an injury, or perhaps suffered a critical illness - you (or your family) may be very grateful that there was a protection policy in place.

Yet recent research showed that only 26% have a life policy, with a far smaller percentage having either a critical illness or income protection plan in place.

The same survey also set out why they felt a protection plan was not for them:

1. 'It's too expensive.'
2. 'Don't see the benefit of having it.'
3. 'Don't trust the insurer to pay out in the event of a claim.'

(Source: Royal London, March 2017)

All understandable concerns, but do make sure you talk to us first before writing if off, and let's briefly cover here each of those points.

1. 'It's too expensive.' Costs will vary widely due to age, health, lifestyle, extent of cover required, etc. But the insurance industry is both highly competitive, and innovative, and we can search for the most suitable deals.

You can, of course, do it yourself online, but you might find that when you are confronted by a raft of options, you may agree that it makes sense to take advice.

Those options could encompass, for example, plans that reward you for living more healthily. If cost is an issue, then you could consider removing extras like indexing for inflation to control the expense.

Additionally, we have written in the past that by merely cutting out the odd glass of wine, take-away, magazine, etc, you may be quite surprised how this all adds up, and it might then enable you to fund a 'potentially life-changing' protection policy.

2. This leads us nicely onto **'Don't see the benefit of having it.'** It's often difficult to contemplate needing a protection policy, until you REALLY NEED IT! Take a look at the Seven Families initiative to get a feel for how it's helped others: www.7families.co.uk

3. 'Don't pay out.' See the post-it note image above, which refutes this myth, as 97.3% of claims were paid out in 2016, equating to £13m a day.

Do get in touch to find out more.

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

First-Time LUCKY

Despite the perceived difficulty of entry onto the property-owning ladder, due to deposit and affordability issues, the **First-Time buyer** market has held up remarkably well over the last decade, which encompasses the peak lending years of 2006 and 2007.

» Moving homeowner transactions halved between 2006 and 2016, whilst first-time buyer numbers only declined by a modest 16%, and reached a record £53bn of borrowing in 2016.* As we go through 2017, borrowing for first-time buyers continues on an upward trajectory, with April showing a 7.9% year-on-year increase.**

Why it's doing well...

There are numerous initiatives in place that have helped deliver support for the first-time buyer over the last few years. Plus there has also been a great deal of 'input' from the Bank of Mum & Dad!

With regard to the initiatives, the Help-to-Buy schemes, for example, have assisted 150,000 first-time buyers. This has accounted for over 40% of the increase in the first-time buyer numbers since the schemes were introduced in 2013.*

Help-to-Buy has enabled many buyers to have access to some of the better rate deals, by only requiring a smallish deposit of, say, 5-10%. Off the back of this it's also encouraged some lenders to offer - outside help-to-buy schemes - similar 90% loan-to-value deals, which first-timers could also consider.

Where we can help

Understandably there are endless options to assess, and that's why it makes sense to take advice.

Not only could we assist in finding the most suitable deal for your needs, we may be able to help protect your all-important credit rating. Conversely, if you applied directly and contacted a wide number of lenders, you may find that extensive searches could mean that it impacts badly on your credit rating, as the systems may interpret this as someone who is desperate for cash! Through our market knowledge, we would have a far better feel, enabling us to opt for products where we believe you're more likely to find something at a rate and cost that best meets your needs. Plus, it will hopefully protect your credit rating along the way.

To hear more, please get in touch.

*(Sources: *Intermediary Mortgage Lenders Association, April 2017 report; **Council of Mortgage Lenders, April 2017 figures, June 2017 release)*

WHO ARE THE FIRST-TIME BUYERS?

20-30 years ago the average first-time buyer would have been in their early/mid 20's and would have found it relatively easy to get a mortgage. It's all changed now...

- Average age = 30
- Average loan size = £136,500
- Average loan-to-value = 84.8%
- Average income multiple for a loan = 3.57
- Average proportion of household income to service the loan = 17.3%

(Source: Council of Mortgage Lenders, April 2017 figures, June 2017 release)

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

Market**FACTS**

Will the Bank Base Rate rise?

In June 2017 the Bank of England Monetary Policy Committee (MPC) voted 5-3 to keep the Bank Rate at 0.25%. What's unusual is that recently there has only been one voice voting for an increase to 0.5%. To some extent a growing inflation rate of 2.9%* may influence a future rise - albeit the 'one voice' has now finished her term on the committee!

*(Source: *Office for National Statistics, May 2017 figure, June 2017 release)*

What of House Prices?

In June 2017, UK house prices delivered a modest 3.1% annual growth. A year earlier it was 5.1%. Also, there were marked regional differences, with a noticeable slowdown in London.

(Source: Nationwide, House Prices, June 2017)

Home Mover FastFacts

- Average loan size = £176,500
- Average loan-to-value = 73.3%
- Average income multiple for a loan = 3.35

(Source: Council of Mortgage Lenders, April 2017 figures, June 2017 release)

Bad Times... ...GOOD TIMES

A key consideration for **BUY-TO-LET** landlords is to gauge the levels of 'supply' and 'demand'.

Whilst landlords also face a number of tax and regulatory issues, the demand for renting is still fairly strong, as everyone knows we aren't building enough homes to meet the needs of a growing population. This - combined with the difficulties many renters face in getting together a suitable deposit to exit the rental sector and enter the home purchase arena - will help to maintain demand.

Of course, there are marked regional differences, so if you're currently a landlord, or wish to become one, you need to do your homework and assess how it may pan out in the areas in which you operate, or plan to operate, and the type of renter you're after.

Dealing with what's in front of you

From April 2017, tax relief on landlord's mortgage costs will be restricted to the basic rate of income tax. And, over the next three years, the proportion of borrowing costs that landlords can offset against tax will taper down to zero.

Additionally, landlords face new rules restricting other deductible expenses they incur from renting property, such as limiting tax relief for wear and tear in fully furnished properties.

Landlords have also faced higher rates of stamp duty on property purchases, as anyone who buys a second home has had to pay 3% on top of the normal rate of stamp duty. This means that each investment by a landlord will have a stamp duty bill of at least 3% and possibly as much as 15% of the purchase price.

The final strand in these developments relates to greater regulatory requirements from the start of this year. This 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.

And there's more! From 30 September 2017, the Prudential Regulation Authority (PRA) will implement special underwriting rules for landlords with a portfolio of four or more managed properties.

Remortgage now?

If you do have four or more properties and feel that you want to take advantage of the current excellent deals on offer* - where, in many instances, there has been a healthy reduction in rates and costs over the last 12 months - now may be the time to act. Particularly as it means you would be taking action ahead of 30 September, thereby borrowing in a less restrictive environment.

*(Source: *Mortgage Brain, May 2017)*

Of course, into the future the current and ongoing political and economic environment may influence the regulatory controls. But, in the meantime, it's important to take advice and deal with what's in front of you.

A WAY FORWARD?

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 not affected by the PRA regulations.

However, this may not be right option for some, so it's essential that you take advice from us, and your accountant.

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.**

WILL YOU, **WON'T YOU?**

A remarkable 59% of all adults don't have a **Will,** let alone those that have one, but ought to update it. *(Source: Unbiased.co.uk, September 2016)*

» In general, not having a Will in place would mean that a person dies intestate, and while their spouse or civil partner would be the first person to 'eventually' benefit from the estate, they may not inherit all of it. If a couple aren't married, or in a civil partnership, then it becomes even more problematic.

A Will speeds up the process

So, quite apart from not being able to ensure your loved ones receive the share of the estate you want them to, it's also possible that the whole process is slowed down dramatically.

For many, it's morbid to have to confront death, but surely you'd want to set out your various wishes. Such as how your wealth is distributed amongst your family (and friends - or charities), requests regarding your funeral, and who should receive items, such as specific jewellery, collectables and artworks. Beyond this, you may also want to outline any plans you may have for your pet(s).

Mirror Wills

Married couples may often opt for 'mirror' wills, meaning that both wills are the same, and leave their estates to each other.

Update an existing Will

If the last time you set out a will was 10-20 years ago, then much may have happened in the interim period, so it would make sense to re-visit this process.

For example, your own personal relationship may have changed, you may have more grandchildren to consider, or your finances may be markedly different. If nothing else, your views on who gets what, could have changed!

Also, did you know, that if you re-marry, then any existing will is deemed null and void, and without creating a new one, you'll simply be subject to the laws of intestacy, as if you'd never had a will.

LASTING POWER OF ATTORNEY

This is a sensible legal agreement to have in place for yourself, or perhaps for your parents, and possibly essential when you consider that by 2025 more than 1m people in the UK are likely to have dementia.*

In England, for example, if someone loses their mental capacity, and their spouse, civil partner, friends or family want to help organise things for them; they are not allowed to do so without one. Similar rules apply elsewhere in the UK.

It's for this reason that people have this arrangement in place ahead of any 'mental capacity' issues, enabling a swift transfer of responsibilities. There are two main elements to a Lasting Power of Attorney:

1. Looking after the person's property and financial issues.
2. Looking after the person's health and welfare.

Aside from the legal input to set it up, the person (or people) acting as someone's 'attorney' don't need to have any legal experience. Which means the task may be undertaken by a family member(s), or friend(s).

If someone lost their mental capacity and this wasn't in place, an application would have to be made to the Court of Protection to become a Deputy. A process that can be a long, arduous and possibly costly one. So it's far better to avoid this and have a Lasting Power of Attorney set up in advance.

*(Source: *Alzheimer's Society, www.alzheimers.org.uk, June 2017)*

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

PROTECTION for ALL

Life cover is the most widespread form of Protection, but other misfortunes may hit you along the way, so it makes sense to consider plans that protect you in this respect too.

» A question that may be posed is *'would you rather lose your Home or your Mortgage'?* Of course, the likelihood is that you may never face this issue - but some do. Also, you may not need a policy that's designed to pay off the whole mortgage - but some do.

Additionally, those that are renting should not be immune to questions about their financial obligations, particularly as the monthly cost of renting tends to be greater than funding a mortgage for a similar property type.

So, for both **homeowners** and **renters,** it makes sense to consider policies - in addition to life cover - that may protect you against misfortune along the way.

For example, you could suffer a serious illness, which may massively affect your health and livelihood. For this reason there are **Critical Illness** plans out there to deliver a lump-sum payout should you suffer from conditions such as heart attack, cancer or stroke - as long as the illness is specified in the policy. In this instance, you may not require a sum large enough to help pay off the mortgage, but it could make a big difference and help you along the way by lowering your outgoings, whilst you try to get back on your feet.

Alternatively, you may suffer an injury or illness that means you're unable to swiftly return to work - if at all. In this respect you could consider a long-term **Income Protection** policy, which is generally designed to pay out a regular income (rather than a lump-sum) until such time that you return to work, or even until you retire!

The State or my Employer will look after me

Before taking up any protection policy it's essential that you find out what your employer may offer you - as there is no point in duplicating your cover. You may be fortunate, but as economic conditions have impacted over the last decade or so, you might also find that your employer has become less generous. Separately, if you are part of the 4.8m workers that are self-employed*, your exposure is probably even more pronounced!

The next port of call is the support you may get from the state. Again, this may also not be as generous as it was a few years back.

Statutory Sick Pay, for example, is just £89.35 a week, paid for up to 28 weeks if you qualify. This is less than one-fifth of the average weekly wage of around £500*, which could leave a big shortfall in a person's finances.

Surely it's better to have something and hopefully not need it, than to need something and unfortunately not have it...

- Yet despite the fact that almost 80% of people, in one survey, saw the benefits of life cover, critical illness plan or income protection insurance, less than 12% felt a strong need to take out a policy! *(Source: Royal London, March 2017)*
- But, did you know that each year, a million people in the UK suffer a prolonged absence from work due to sickness, and up to half a million would find their savings have run out after just a few weeks? *(Source: The Chartered Insurance Institute, 2016 report)*

Elsewhere, a possible back-up is 'Support for Mortgage Interest' (SMI). This is a means-tested benefit that would pay your mortgage interest up to a threshold amount (dependent on other claims). However, you have to wait 39 weeks before it starts, and there are plans to turn SMI into a loan.

Overall, you may be surprised by how much you may fall short when thinking about your financial obligations and balancing that against what you may secure from your employer and the state, so it makes sense to have a chat with us to discuss the way forward.

*(Source: *Office for National Statistics, UK Labour Market, June 2017 release)*

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.

There may be a fee for mortgage advice. The precise amount will depend on your circumstances, but we estimate that it will be £295 for a residential mortgage & £500 for a Buy-to-Let 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: 01708 641155 Email: enquiries@applefinancial.org
Twitter: https://twitter.com/FinancialApple Web: www.applefinancial.org