Summer 2019

the mortgage

The newsletter from Fresh Start Finance

FRESH START FINANCE

Is it time to start implementing your property (and protection) plans?

Following the Financial Crash of 2007/8, many of us had to tighten our belts and hold back from implementing plans, such as house moves, or undertaking major renovations to our existing home. Yet, over time we had to get on with our lives. Similarly, as Brexit drags on, consumer reluctance to implement planned lifestyle changes may also soften. In which case you may, for example, want to take advantage of the **excellent mortgage deals** on offer.

Where we can help

Whilst strict lending requirements remain in place, we operate in this sector day-in day-out, and have an excellent understanding of what different lenders are looking for.

This will, hopefully, help us to swiftly identify the most suitable route foward for you, whether that's for a **house move, improving your current home,** or buying your **first property.**

Or maybe it's to help purchase a **second home,** or to **expand your portfolio** in your role as a landlord.

Alternatively, you may be coming towards the end of your current 'deal period' and want to **remortgage** onto another one. Or perhaps you simply want to identify a better mortgage deal than the one you have.

Whatever your reasons, it can be a confusing process with so many different mortgage products out there, so it probably comes as no surprise that most seek advice, with 85% of all mortgages going through intermediaries (such as us).

(Source: iress, 2018 Mortgage Efficiency Survey, October 2018)

Interestingly, the increase in competition amongst lenders has meant that a decade on from the financial crisis, average **mortgage rates have almost halved!**

(Source: Moneyfacts, March 2019 release)

Elsewhere, current UK property prices will also be a consideration. Annual growth remains subdued at 0.9% - albeit regional variations would apply.

(Source: Nationwide, year to April 2019, May 2019 release)

Furthermore, you must also recognise the importance of protecting you (and your income stream), by taking out suitable **protection insurance cover**. Similar to what's on offer with mortgages, there's a wide, and innovative range of protection options to consider.

Mortgage Prisoners

With regard to this specific audience, there continues to be movement politically, and also via regulators and trade bodies, to get lenders to assist the **150,000** or so who are viewed as mortgage prisoners. These borrowers are **stuck on their Standard Variable Rate,** as they can't meet the strict affordability criteria to get a better deal, or find themselves with lenders who no longer lend.

Those that face this scenario ought to talk to us, as options may be improving. Alternatively, get in touch if any of the earlier issues resonate.

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 products - and sets out how we **may help you.**

Lofty Ambitions

As said, many of you may feel that you've waited long enough for some resolution to Brexit - either way - and simply want to proceed with long-planned **Home Improvements.**

For many, improving your home is a balancing act. First, to identify and cost out what works best for you, and your family, and then how that may play out in adding value to any future property sale.

Build up, out or down

Adding extra space to your home tends to be the most financially lucrative - whether that's building upwards, with a loft conversion, adding an extension, installing a basement, or converting the garage.

According to the Royal Institute of Chartered Surveyors (RICS), for example, more than a million homes in the UK now have loft conversions, with the market growing by an estimated 10% each year. Estate agents calculate that **an average loft conversion costs around a third of the price of moving to a property with an extra room.** In fact, turning your attic into usable space could increase the value of your home by as much as 25%, particularly if you are adding an extra bedroom and a bathroom. *(Source: RICS, Guide to Home Extensions)*

Another development that reflects our changing live/work lifestyle, is to add a 'home office', either as part of the property, or perhaps as a garden office.

And many, of course, may want to modernise the kitchen - a focal point for many homes - and take advantage of the increasingly innovative storage and appliance solutions.

Consider the basics

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

Another option to consider is that you could simply cover the cost (and time) of securing planning permission, ensuring that it's still in place when you come to sell, as that too may add value to your property.

But remember, no matter how much you spend there is likely to be a ceiling value that's partly framed by local property prices.

Getting the funds

Depending on the amount you require, the two obvious routes are remortgaging to secure a larger loan amount, or seeking an additional loan, such as a second charge on your property. You may opt for the latter if you face a hefty early repayment charge on your existing mortgage deal.

Conversely, if you feel you'd struggle to raise more funds, then assess your current deal. If you're on your lender's Standard Variable Rate, then the 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.

If you are keen to raise funds to implement your plans, do get in touch.

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

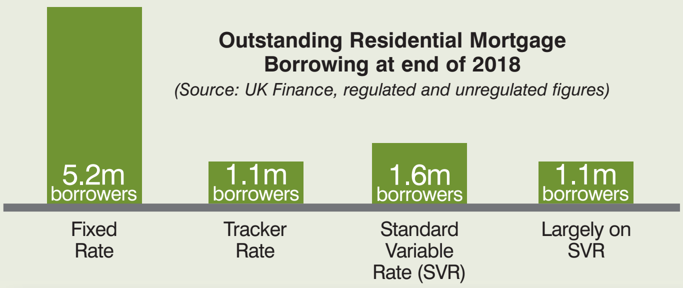
FACTS about...
Residential Borrowers

Fixed Rate deals continue to be the most popular form of borrowing, with the 5.2m borrowers accounting for almost 58% of the marketplace in 2018, up from around 52% in 2017. *(Source: UK Finance, 2017 & 2018 data)*

The next largest grouping, are those sitting on far more expensive Standard Variable Rates (SVR). To put that into perspective, the average rate for a 2-year fixed deal is around 2.49%, with the average SVR at about twice that amount at 4.89%. In which case, if you're on an SVR, it's possibly worth having a discussion. *(Source: Moneyfacts, March 2019 analysis)*

In the other chart, you'll see the differences between those that are simply staying put and remortgaging vs. those that are moving home or are first-time buyers. Interestingly, as a reflection of the changing times we live in, the average age for the first-time buyer has risen over the years, and currently stands as high as 32.

Outstanding Residential Mortgage Borrowing at end of 2018
(Source: UK Finance, regulated and unregulated figures)



AVERAGE FINDINGS	REMORT-GAGORS	HOME MOVERS	FIRST-TIME BUYERS
Property Price	£305,896	£325,224	£215,062
Loan-to-Value	56.9%	67.1%	76.1%
Loan Size	£174,055	£218,225	£163,662
As an Income Multiple	2.71	3.28	3.45
% of Monthly Gross Household Income (to service capital & interest repayments)	16.5%	17.4%	16.9%
Age	42	40	32

(Source: UK Finance, March 2019 figures for type of borrower, released May 2019)

Family PROTECTION

You may feel that once you've got your mortgage loan it's job done - but what about protecting the income stream(s) that will pay the mortgage, along with all the other family living costs?

Many of us recognise the importance of insuring our homes, mobiles and pets. Yet do we apply as much importance to protecting the wage earner(s) who fund the above costs and much more? Whilst many may feel that an untimely death, serious health issue, or a major injury are highly unlikely, or way off into the future - do take a look at the box on the right, as you'll see that it's possibly more likely, and earlier in life than you think.

Surely it's better to **have some protection insurance cover in place and not need it, than to really need it and not have it!**

What's best for you?

There are three main areas to consider, and within these, a massive array of options to suit your age, lifestage, and pocket:

- **Life Cover -** this pays out a lump sum when you die, or a regular income in the case of Family Income Benefit.
- **Critical Illness Cover -** this pays out a lump sum when you have a specified serious illness.
- **Income Protection -** this pays you a percentage of your monthly income when you can't work due to illness or injury.

My Employer will support me

This may, or may not, be true, so do check what's on offer - as there's no point duplicating your cover. If, for example, you are off work long-term, due to illness or injury, and there's only support provided at the basic level, then it's Statutory Sick Pay, which is just £94.25 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.

Separately, if you are part of the 4.9m workers that are self-employed*, then your exposure is probably even more pronounced!

*(Source: *Office for National Statistics, UK Labour Market, May 2019 release)*

Added value benefits

The insurance 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 policy term, as reflected by the following examples:

- Incentives to keep healthy - including discounts off health club membership, and wearable technology to aid fitness.
- Specialist support - such as GP/nurse helplines, telephone counselling, carer support services, consumer rights, early intervention and rehabilitation services.

Costs and payout likelihood

With such a wide range of options on offer, do talk to us, as you may be pleasantly surprised at how little a plan may cost. As for paying out claims, take a look at the positive figures at the bottom of this page.

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

Could it happen to **ME?**

Leaving loved ones behind to pick up the pieces.

- **One in eight of all current healthy 35-year-olds will die before the age of 65.** *(Source: Drewberry, Protection Survey 2018)*

As worrying as the above figure may be, it's probably more likely that someone would suffer and survive a serious illness, long-term ill-health, or injury across the same period. If so, that would impact upon on the regular income stream, whilst the wage earner recovers.

- **A sizeable 2 million individuals are currently off work and deemed as long-term sick.** *(Source: Office for National Statistics, UK Labour Market, May 2019 release)*
- **Going back 40 years or so, just 1 in 4 people survived their cancer disease for 10 years or more, nowadays it's doubled to 1 in 2.** *(Source: Cancer Research UK, April 2019)*
- **Since 1961, the UK death rate from heart and circulatory diseases has declined by more than three-quarters.** *(Source: British Heart Foundation, Nov. 2018)*

A massive **97.6%** of all Protection Claims are met

- equating to a sizeable **£14.5m a day** in payouts, and how that plays out for the key sectors are as follows:

LIFE COVER
- 99.4% of all Life claims
- Average payout of: £81,269 (term) £4,740 (whole of life)

CRITICAL ILLNESS
- 91.6% of all Critical Illness claims
- Average payout of £70,926

INCOME PROTECTION
- 88.1% of all Income Protection claims
- Average payout of £22,058

(Source: Association of British Insurers, 2018 data, May 2019 release)

The adaptable Landlord

The **Private Rented Sector** grew from just 2.8m households in 2007, to 4.5m by 2017*, which possibly helped create the climate for the introduction of the tax and regulatory changes.

» The growth to 4.5m was obviously partly fuelled by consumer demand. Both from those who are struggling to raise a deposit to buy their own home, and by others for whom it simply meets their current lifestyle choices.

However, recent developments have impacted on the type of Landlord that wishes to remain in this sector. There's probably been a reduction in the 'amateur' landlords, and a **changed focus** from the 'professional' landlords as they adapt to the new environment.

One example of this, are the growing numbers that are now placing properties within a **Limited Company** structure, which means that they shouldn't be affected by the tax relief changes, and lenders may apply a less stringent rental calculation as a result.

This route won't be right for everyone, particularly those with just one or two properties. Also, interest rates may be higher, and there might be implications for both capital gains tax and stamp duty. This is why it's vital that you obtain tax advice from your accountant.

Key issues for Landlords

- Stamp duty surcharge of 3% on the purchase of second homes.
- Stepped reduction in mortgage interest tax relief.
- Stricter regulatory rules 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).
- Special underwriting rules for 'portfolio' landlords that have four, or more, mortgaged properties.
- Recent changes to rules for HMO (House in Multiple Occupation) landlords.

Current outlook

Whilst nine out of ten landlords say that tenant demand is either stable, growing or booming, the current climate has meant that, conversely, only 7% feel optimistic about their property portfolio. A reflection of this is that almost a quarter of landlords are looking to sell off part of their portfolio. *(Source: Paragon, PRS Trends Report, Q1 2019)*

The tax and regulatory changes will no doubt mean that landlords continue to reassess their investment strategy and identify where they would generate the best return, by area, by property type, and by type of tenant. On the upside, plenty are still renting. In fact, **one-fifth of all households are in the private rented sector,** and, on average they tend to remain in the property for around 4-5 years.*

Where we can assist you

Another positive, is that lenders are keen to lend to this market, with some **decent rates on offer.** So let's have a chat if you'd like to discuss the current deals, or seek advice on a way forward through the plethora of red tape that now exists, particularly for those who are 'portfolio landlords'.

*(Source: *Office for National Statistics, UK private rented sector, Jan 2019 release)*

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.

COST Control

Whilst you may recognise the benefits that **Protection insurance cover** could deliver for you and your family, we fully understand that there are likely to be many demands on your income stream. If cost is an issue, then do consider these two products that may better suit your pocket.

FAMILY INCOME BENEFIT

General life cover that pays out a lump sum (if a valid claim is made) is often in place to help settle the outstanding mortgage. That's a great help, but for the partner left behind and their children, 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. In the event of death, it would provide a regular tax-free income for your loved ones from the time of the claim to the end of the plan term.

It's 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 a valid claim, then it's in place to **pay out until the children have grown up.**

It is 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.

How it works

If you took out, for example, 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 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. If, fortunately, there was no claim at all within the 20-year period, then the policy simply runs the whole term without any payout.

Finding the extra pounds...

Putting aside the money to fund a Protection plan may be easier than you think when you consider all those little items we may take for granted, like the odd drink or a magazine. Whilst we don't expect you to give up all of life's little luxuries, if you cut out just one unit each week of the items below, then you could save around £150 across a month. In many cases, that'll be more than you need to cover the cost of a protection policy.

Treats	£ Cost/unit (est.)
Soft drink	1.00
Snack	1.00
Magazine	1.50
Coffee (takeaway)	2.50
Pint of beer or lager	3.50
Glass of wine (175ml)	3.50
Taxi	5.00
Cigarettes (pack of 20)	10.00
Takeaway meal	7.00
	Total = £35.00

SHORTER-TERM INCOME PROTECTION

Income Protection is designed to pay out a tax-free monthly sum in the event that you can't work due to illness or injury. With mid-40s being the average initial age to claim, it could run right up until you retire. However, if you're concerned about minimising your outlay, then a **shorter-term version** is also available, which could still deliver important financial support (if still off work) for generally up to two years - even five, in some instances.

Analysis by Zurich, an insurer, set out that this type of Income Protection cover for a 35-year-old professional earning the average salary of £27,000, and wanting to protect 50% of their net income may only cost the equivalent of **one takeaway coffee a week** across the course of each month, for up to two years cover. *(Source: Zurich, Cost of Resilience report, August 2018)*

Please do get in touch to hear more.

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

With a wide range of product choices and a requirement to meet the strict borrowing criteria, the mortgage process can be confusing for **First-Time Buyers** - so it makes sense to take advice.

Onto the **Property Ladder**

To own your own home remains a desire of many who are currently renting, or living at home. If you (or your children) find yourself in this situation, then you can take comfort from the continued support that exists.

The government, for example, wants to get more people onto the property ladder through initiatives such as the **Help-to-Buy** scheme. It's also keen to encourage new housebuilding - for which the first-time buyer is a key audience. In fact, in 2018, housebuilders applied for permission to build 370,000 new homes, double the number from a decade earlier.

(Source: Home Builders Federation/Glenigan, Housing Pipeline report, May 2019 release)

The Deposit

Providing a deposit is a key stumbling block for many, but in this respect there's much improved lender support with products that only require a **5% deposit.** Going back a decade, there were just three mortgage lenders who offered a product with a 5% deposit. By April 2019, there were 60 providers to choose from!

As for the deal rates, whilst they will not be as attractive a those where a much larger deposit is provided, there were sizeable year-on-year drops in April for the average two and five-year fixed rate deals, coming out at 3.28% and 3.73%, respectively.

(Source: Moneyfacts, April 2019 release)

Additionally, if you have just a 5% deposit, then consider the Help-to-Buy scheme for new-build properties, where the government would loan an extra percentage enabling you to access the better Loan-to-Value (LTV) deals on offer.

As the average LTV figure for first-time buyers sits at around 76% (comparable to a 24% deposit) many have already taken advantage of this scheme, benefitted from the Bank of Mum & Dad, or simply saved for a larger deposit.

(Source: UK Finance, March 2019 figures, May 2019 release)

Positive climate

House price growth (or decline) will vary wherever you are in the UK, but in general, growth is slowing. **Stalling house prices,** combined with relatively **cheap borrowing,** and **lower deposit** requirements, may usher in a period of opportunity for those looking to make their first property purchase.

Additionally, don't forget that the first-time buyer is also a very attractive proposition for sellers, as there's no property chain behind them, creating one less hurdle in the homebuying process.

Our support

It's vital that you **take professional advice.** We would help navigate you through the affordability, evidencing of income and credit rating hoops, and in the process hopefully identify some of the decent deals that are still on offer - whether it's a 95% LTV package, or moving towards the 60%+ LTV deals, where the interest rate reduces to reflect the larger deposit contribution.

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

CREDIT RATING

- This may not have been an issue for you previously, but it's an important factor when seeking a mortgage loan.
- 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.
- We can talk through the steps you could take to help improve your rating, and to make yourself more appealing to the lenders.
- Surprisingly though, rental payment history (particularly for those not in social housing) isn't necessarily reflected in people's credit reports. However, there now seems to be greater enthusiasm from the credit agencies and from those that use their service to include this information. This is likely to benefit some first-time buyers.

■ Do contact us if you'd like to discuss your mortgage needs: Tel: 0800 783 1635 or 07970 153247
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