Mortgage & Protection news

The newsletter from Liddle Perrett Ltd

More than 2.6 million* mortgage borrowers have never experienced an environment where the Bank Rate has risen!

» The increase in the Bank of England's Bank Rate from 0.25% to 0.5% is the first such rise since July 2007. Back then, the rate hit 5.75%, although, for much of the following decade the Bank Rate did sit at 0.5%. *(Source: Bank of England, 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 4 million or so* on a variable rate with their lender, who may see a rise in their monthly payments.

The current climate

In recent months we've already seen some lenders upping their mortgage rates, partly in anticipation of the Rate rise, and partly because of an increase in SWAP rates (the interest charged between banks for lending to each other).

That said, the whole market hasn't changed overnight, and if you consider your existing deal, should you be on a fixed rate, for example - and took it out a few years back - then you may be pleasantly surprised to see what's on offer.

The importance of Advice

In short, the Bank Rate rise is simply yet another consideration amongst the ongoing issues of Brexit, rising inflation, value of the pound, house price moves 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. Additionally, you may have one or more protection policies in place to ensure that you (and your family) are in a good position should the unexpected occur.

However, for others the Bank Rate rise 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 options, and perhaps consider one of 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 one of the 3-4 million** 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 schemes on offer.

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.

As you can see there are plenty of areas where we may be able to help you - and that's before we even cover the importance that protection products may play for you, your partner, and your family.

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

*(Sources: * UK Finance, Nov. '17; ** Which.co.uk, March '17)*

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

Ready, Steady...

Over the last 12 months, the number of people remortgaging has been higher than any period since late 2009.

(Source: UK Finance, 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'll 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 being worth more.

Change the nature of your deal - You may want to look at taking out a fixed rate deal (where the interest rate remains the same across the loan deal period), should you be concerned about future rate rises.

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 calculator 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, as we can hold your hand through this process, and hopefully make it easier for you.

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

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.

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 a multitude of 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 in 2016

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 time of £32,000

(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.

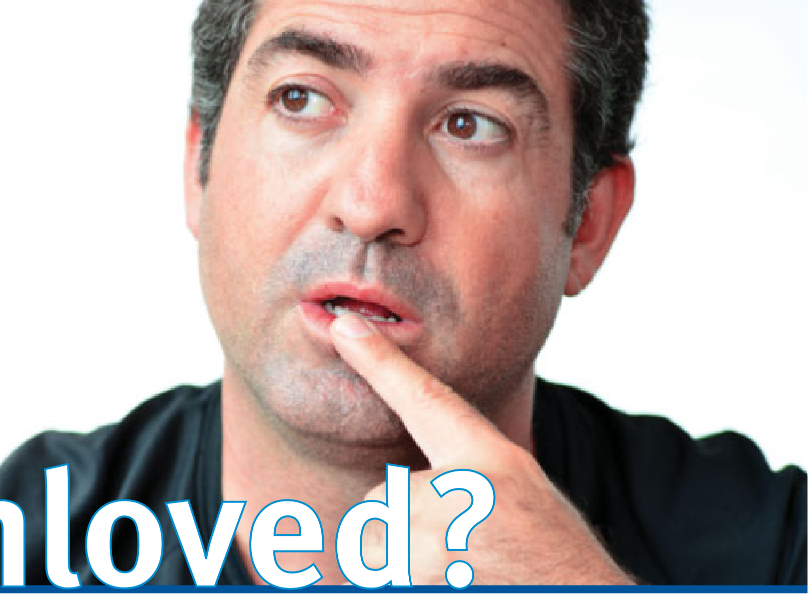
Consider the children

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.

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.

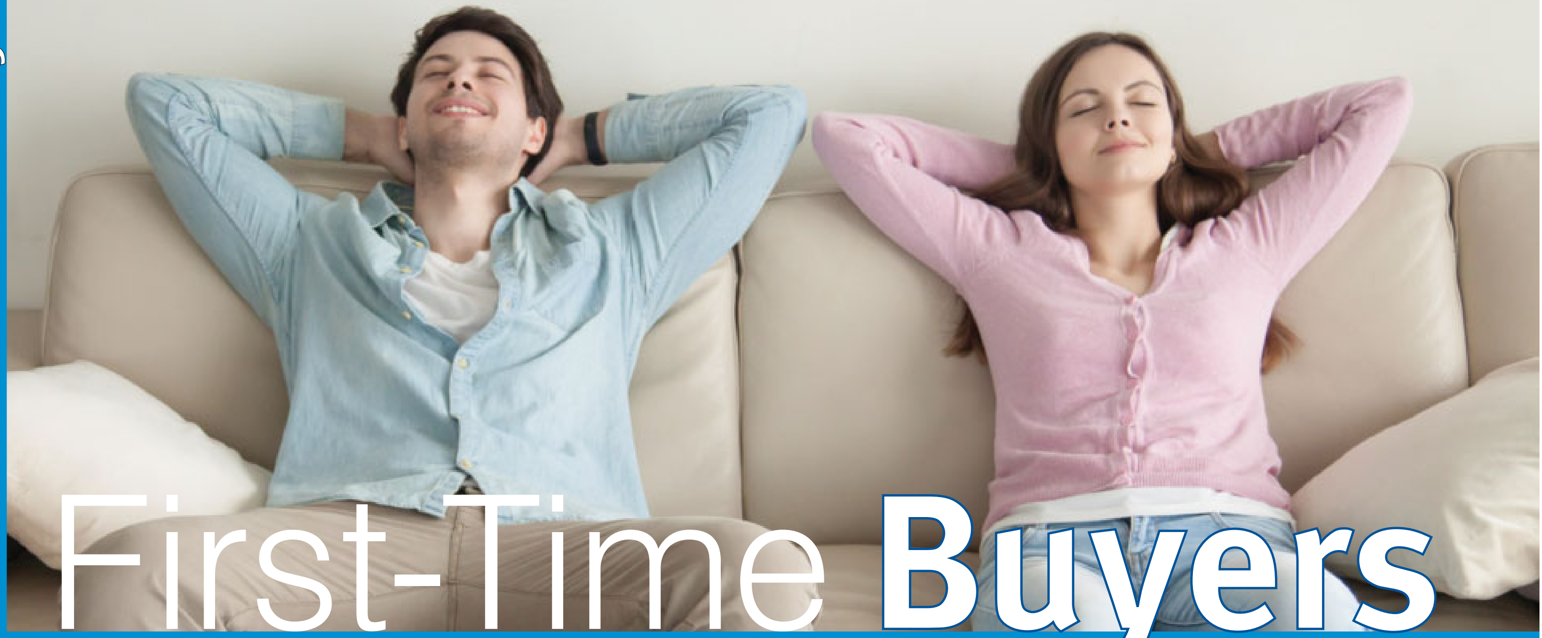
The Financial Conduct Authority does not regulate legal and taxation advice, and most Buy-to-Let mortgages.

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

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.

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



First-Time Buyers

Much has occurred in recent years to support the First-Time Buyer such as; a low interest rate environment, the Bank of Mum & Dad, and various government schemes.

This has helped to drive up the share of first-time buyers from 36% a decade ago to an estimated 47% of all house purchases financed by a mortgage in 2017. *(Source: Halifax, July 2017 release)*

Bank of Mum & Dad (plus family & friends)

In fact, in 2017, parents, family and friends are expected to provide a massive £6.5bn to help their loved ones get onto the property ladder. A contribution that supports close to 300,000 property purchases, equating to an average of over £21,000 per home! *(Source: Legal & General, Bank of Mum & Dad report 2017)*

However, not all first-time buyers will benefit from this, and most may still have to address the stamp duty and deposit costs, quite apart from jumping through the affordability hoops to secure a suitable mortgage loan. This is where we can help.

Government initiatives and market deals

As you may know, there are numerous government schemes across the UK to assist first-time buyers. Generally, they open up the opportunity to secure a property for possibly a smaller deposit (around 5%), or may offer a discounted purchase price. Understandably, there are various rules regarding eligibility, with certain strings attached.

FIRST-TIMER FACTS...

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 = £140,000
- Average loan-to-value = 85%
- Average income multiple for a loan = 3.63
- Average proportion of household income to service the loan = 17.5%

(Source: UK Finance, August 2017 figures, October 2017 release)

Additionally, a less complicated approach may be to try to access some of the higher loan-to-value deals available in the wider marketplace, assuming the borrower can meet the deposit and affordability criteria.

Elsewhere, there are other types of schemes that could be considered. One example is Shared Ownership (if applicable), should you be unable to afford 100% of a home. In which case, you could buy a share of its value (between 25-75%) and pay rent on the remaining share. Later on, if you can afford it, you could buy a bigger share.

Low(ish) interest rate environment

With the first Bank Rate rise in over 10 years, the hunt for a suitable deal may become harder should lenders start to pull back from offering the lower deposit requirement deals, or start upping their interest rates.

Of course, as we mention elsewhere the current Bank Rate of 0.5% (at the time of writing) is a long way off from the last rise in the Bank Rate to 5.75% back in July 2007.

So let's consider this 5.25% spread (0.5% vs. 5.75%) and what it equates to in purely interest costs (quite apart from paying off any of the capital). Against the average first-time buyer loan of £140,000, it would result in paying out an extra £613 a month back in 2007!

This amply demonstrates that we still live in a 'low-interest rate' environment, even if there have been some increases. However, as the options on offer can be complex, it makes sense to take advice. We'd listen to your requirements, assess your financial position, and endeavour to help identify a suitable deal.

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

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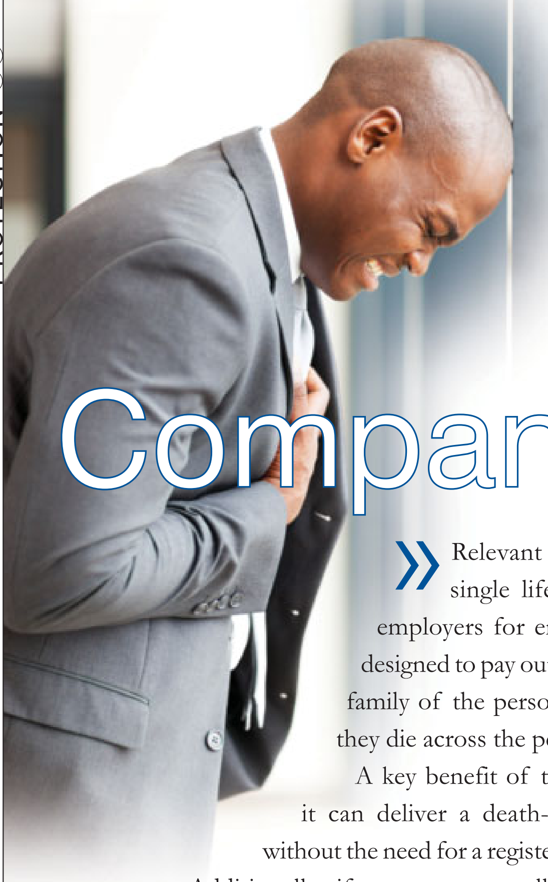

A **Relevant Life Plan** allows businesses to offer a 'death-in-service' benefit to its employees (including salaried directors), and may bring with it a number of advantages...

Company PROTECTION

Relevant Life Plans are single life plans set up by employers for employees, and are designed to pay out a lump sum to the family of the person covered, should they die across the period of the cover. A key benefit of this scheme is that it can deliver a death-in-service benefit without the need for a registered group scheme. Additionally, if you are a small business owner, company director, or higher earning employee looking for more life cover, then a Relevant Life Plan may be worth considering as an alternative to a further personal plan.

Tax-efficiency

Of course, do take advice from your accountant if you require further clarification, but a Relevant Life Plan can be a tax-efficient way to secure some all-important life cover.

Even though the company makes the payments, it is not treated as a 'benefit in kind', and would therefore not be included in your income tax assessments. This may deliver a significant saving, particularly for a higher or additional rate taxpayer.

Also, the plan will not form part of your lifetime pension allowance, and premiums won't be included as part of your annual pension allowance.

Additionally, the payments may be an allowable expense for the company in calculating their tax liability, as long as HM Revenue & Customs is satisfied they qualify under the 'wholly and exclusively' rules.

More flexible than a group scheme

This plan can even run alongside a group scheme, should there be a need to address 'multiple of salary' issues, as a group scheme can be more restrictive, and possibly have an upper cap on earnings. The Relevant Life Plan payout is based on a multiple of remuneration, which would vary across providers, and depend on the age of the individual covered.

It's transportable

As it is written under trust, this provides flexibility when it comes to stopping or changing employment, as the plan can be converted into a 'personal policy' should the person leave employment.

IT'S MOST SUITABLE FOR:

- High-earning directors and employees who don't want their death-in-service benefits to count towards their lifetime pension allowance.
- Small companies with too few members for a group life scheme that want to provide employees and directors with tax-efficient death-in-service benefits.

Although if the 'life covered' starts to pay the premiums, then the tax advantages may no longer apply.

If there's a move to a new employer, and the employer is willing to take on the Relevant Life Plan, and any required change to the trustees, then it can move across.

To set up a Relevant Life Plan there needs to be an 'employer-to-employee' relationship. So, whatever your status is, do talk to us to find out if this could be a suitable option for you.

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

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This firm usually charges a fee for mortgage advice. The amount of the fee will depend upon your circumstances and will be discussed and agreed with you at the earliest opportunity.

■ The contents of this newsletter are believed to be correct at the date of publication (November 2017).

■ 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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