Summer/Autumn 2018

Mortgage & Protection news

The newsletter from Liddle Perrett Ltd

LIDDLE PERRETT

It's GOOD TO TALK

With both an increase in the Bank of England Base Rate, along with the excellent deals currently on offer, maybe now is a good time to assess your borrowing needs?

» Whilst a Base Rate rise possibly signals the direction we're travelling in, we currently live in a low interest rate environment. For example, stepping back a decade or so to the economic crash in 2007/8, the Base Rate was as high 5.75%. Going even further back it was almost at 15% in 1989!

Additionally, the Bank of England regularly points out that Base Rate increases would be at a gradual pace and to a limited extent.

That said, there are no guarantees that the decent deals currently out there will not move, at some point, in an adverse direction.

Where we can help

Undoubtedly, with the complexity of the mortgage (and wider borrowing) market-place, along with the extensive range of protection products on offer, it makes sense to take advice. In fact, research shows that around 80% of all mortgages, for example, go through intermediaries (such as us).

(Source: iress, Mortgage Efficiency Survey, September 2017)

Meeting your funding needs

Should you want to take action, we would seek to find a solution for whatever borrowing needs you may have, such as:

- Getting onto the property ladder.
- Moving to a new home.
- Seeking extra funds to undertake renovations to your existing property.
- Securing a better interest rate than your current mortgage deal.
- Looking for a solution as you're coming towards the end of your deal period, or have already gone beyond it, and now sit on a possibly more expensive Standard Variable Rate (SVR).
- Expanding or getting into the buy-to-let arena.

Some issues to consider

UK house prices continue to rise slowly (albeit with regional variations). In July 2018, there was a 2.5% annual increase across the UK. *(Source: Nationwide, August 2018)*

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.

Inflation, which does have an impact on any Base Rate rise, currently sits at 2.4%, just above the 2% Bank of England target.

(Source: Office for National Statistics, July 2018 release)

Whilst a **strict lending requirement** remains in place, we operate in this market-place daily, and consequently have a good understanding of what differing lenders are looking for. Hopefully, this means we're more likely to find a solution for your needs.

Please get in touch to hear more.

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

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We insure our cars, homes, mobiles and pets, but are we doing enough to protect the main wage earner(s), and the income stream(s) they provide?

Possibly not, when you consider that only 35% of all adults have a **Life Cover** policy. Even amongst those surveyed who have a mortgage it only increases to 60%, meaning that 4 out of every 10 homeowners, with a mortgage, don't have life cover in place! *(Source: Royal London, May 2018)*

Yet imagine the emotional and financial implications for those left behind, if the main wage earner were to die. Most will feel that this won't happen to them (or their family members), but it does. For example, each day **around 125 UK adults, aged 18-55 die.**

(Source: Office for National Statistics, 2016 data, July 2017)

What about facing a serious illness (and surviving), or being off work for a lengthy period? The *Royal London* research shows that even less look to protect themselves against those possibilities. Just 12% of all adults have **Critical Illness** cover, and only 9% have **Income Protection,** designed to cover those off work for a lengthy period due to illness or injury.

Cost implications

We understand that there are probably plenty of demands on your finances, and also recognise that it's difficult to contemplate facing an untimely death or ill health. But imagine if the worst did occur, then surely it's better to:

Have something in place and hopefully not need it, than to need something and unfortunately not have it.

Some may still feel that it's not viable financially, but let's have a conversation about this. In fact, you might be pleasantly surprised with what's on offer.

Of course, you want to enjoy the various treats your income can deliver, but do consider that the average Brit spends £124 a month on little luxuries such as takeaways, taxis, and snacks. By possibly cutting out a few items each month you may swiftly find the money to help fund a protection policy that puts your mind at rest.

(Source: Scottish Widows, January 2018)

Only 2.2% are not paid out

Another concern for many is the belief that many claims aren't met. To counter this myth, the insurance industry releases its annual figures. Across the board, 97.8% of all claims were paid out in 2017, amounting to an average of £13.9m a day! We've also shown below how this pans out against the three main sectors for protection.

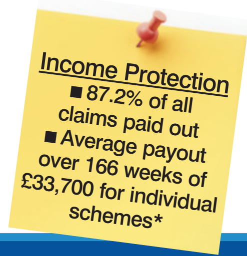
*(Source: *Association of British Insurers, May 2018 release)*

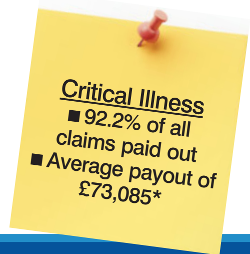
Do take advice

It really makes sense to take advice, as there are so many elements to consider, quite apart from your own issues regarding age, health, lifestyle, extent of cover required, individual or joint policy, indexing for inflation, medical disclosures, and so on.

Also it's not just a price consideration once we identify a suitable route for you, as some insurers are increasingly innovative and provide a range of value-added services which could be of interest.

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





Paying the MORTGAGE or the RENT

Whilst saving for the initial deposit is still a big stumbling block for many, recent research shows that - across the whole of the UK - meeting the cost of a mortgage on your own home is cheaper than renting in the same region.

On average, **First-Time Buyers** could save a sizeable £2,268 a year once they step onto the property ladder, compared to renting, according to research from Santander UK.

This applies to all regions of the UK, albeit there are marked differences. Londoners, for example, could enjoy the biggest annual savings between mortgage and rental costs at £3,468.

At the other end of the scale the smallest differential is in the East of England, where the saving sits at £516 annually. *(Source: Santander UK, June 2018)*

Whilst this shows that the first-time buyer might be under less financial pressure than when they were renting, there is still the issue of saving up for a deposit. According to Nationwide, it may take around 8-10 years to personally save for a 20% deposit.

(Source: Nationwide, December 2017 report)

Fortunately, there are a number of government schemes and lender products that enable the first-time buyer to get access to a mortgage with just a 5% deposit. Although, applying the Nationwide calculations that may still take a couple of years to save up for.

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

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

Looking to Borrow?

There are a multitude of options to consider when looking to take out either a mortgage or to remortgage. We set out below some of the key issues...

Fixed or Tracker deals

With regard to the total amount of outstanding residential mortgage borrowing, **fixed rate** deals account for over a half (see box right). In recent times it really has been the product of choice, accounting for a massive 90.5% of all new loans taken out in Q1 2018. *(Source: Bank of England, June 2018 release)*

The current popularity of fixed rates is partly influenced by concerns over rate rises, and that they provide the peace of mind of knowing the interest rate will remain the same across the deal period.

Additionally, be mindful that irrespective of any Base Rate move, fixed rate mortgages are influenced by SWAP rates (the interest rate charged between banks for lending to each other). In recent months, SWAPs have been on a broadly upward cycle.

Although, we're also conscious that some lenders might be keen to build their market share, and offer better deals to generate more business.

The other main option is a **tracker rate** where the initial rate signed up to may vary dependent on what it's tracking. It's important to do the maths, as some tracker deals could be a better option, even if rates did rise slightly.

Standard Variable Rate (SVR)

Any future increase in the cost of mortgages would be a concern for the **2.8m** or so who currently sit on an SVR with their lender. *(Source: UK Finance, 2017 figures)*

With an average SVR rate of 4.6%*, borrowers could possibly save £000's if they remortgaged onto one of the current deals. *(Source: *which.co.uk, May 2018)*

Albeit, some of those on an SVR may feel they wouldn't be able to secure a new deal due to the more stringent requirements in place. That may be the case, but just as easily it might not. If nothing else, it makes sense to have a chat.

Alternatively, you may be on an **interest-only** deal that's reverted to the SVR rate; but unsure if you could remortgage onto a better deal, or perhaps want to switch to a repayment scheme. Again, do talk to us.

The Self-Employed

The rapid growth of self-employment has been a pronounced feature of the UK labour market in recent years. Back in 2001, there were 3.3m self-employed people (12% of all workers), by 2017 this had increased to 4.8m (15.1%). *(Source: Office for National Statistics, Trends in Self-Employment, February 2018 release)*

Even though this group **accounts for almost one in six of all workers,** the options for seeking a mortgage have been fairly limited. This is partly due to the fact that there's likely to be an irregular income stream, as some months may show a decent income, whilst others require a bit of belt-tightening. Lenders tend to prefer a stable income stream. However, the tide may be turning, so there could now be more options to consider.

The First-Time Buyer

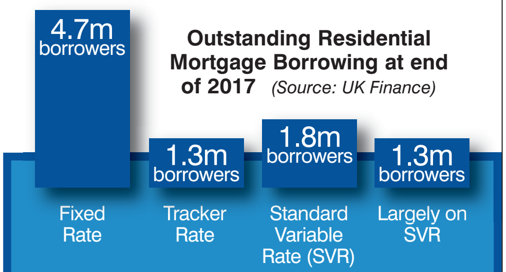
Much has been done over the last few years to make it easier and cheaper for the first-time buyer to gain a foothold in the property marketplace, and do talk to us to find out more.

Meeting the criteria

We could 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.

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.



BORROWER FACTS
(Residential)

AVERAGE FINDINGS	HOME MOVER	FIRST-TIME BUYER
Property Price	£245,232	£167,197
Loan-to-Value	73.4%	84.9%
Loan Size	£180,000	£141,950
As an Income Multiple	3.41	3.62
% of Monthly Gross Household Income (to service capital & interest repayments)	17.5%	17.2%
Age	39	30

(Source: UK Finance, April 2018 figures for type of borrower, released June 2018)

The **BUY-TO-LET LANDLORD** has faced a deluge of new rules, regulations and tax changes over the last few years.

Your guiding **LIGHT...**

» The **Buy-to-Let** sector possibly became the victim of its own success, with both the government and regulatory bodies now applying more control. It's viewed as a decent revenue source by the government. Meanwhile, the Bank of England sees the sector as more likely to be cyclical in nature, which it feels could impact upon a measured recovery in the economy.

Struggles for potential First-Time buyers

Whilst 81% of those that want to buy their own property feel that money on rent is a waste, the same research shows that 40% of prospective first-time buyers view raising a deposit as the number one obstacle, and one in four were refused a mortgage when applying via their main bank.* So this will help to fuel levels of demand for renting, as will any diminishing supply, should the expected 380,000 landlords (19% of the market) offload property in the next 12 months.**

*(Sources: *Aldermore, June 2018; **National Landlords Association, May 2018)*

Changing nature of the marketplace

Over recent times the marketplace has also become polarised. On one side we see that around one in five landlords are 'accidental' ones, where they've entered the private rental sector without really planning to through marriage, inheritance and other events.

(Source: Foundation Home Loans, June 2018)

At the other extreme, we have the professional landlords, who may have a number of properties to manage.

Key regulatory and tax developments

In this respect there are numerous initiatives to get to grips with, such as the **stamp duty increase,** and **stepped reduction in tax relief.** Then, 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 'portfolio' landlords that have **four, or more, managed properties.**

How we can help...

For our part, we operate in the mortgage lending environment, day-in, day-out, so we would know where to identify suitable deals, and then how to assist you in pulling together the increasing amount of paperwork that's required these days (particularly for portfolio landlords) to meet the needs of the lenders and the industry regulators. So please do get in touch.

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.

LIMITED COMPANY STATUS

- Placing properties within a limited company 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 is a route a number of landlords have opted for, but it won't be right for everyone, particularly those with just one or two properties. For this reason, it's vital that you obtain tax advice from your accountant.
- However, the lenders have recognised the demand and an increasing number of products are becoming available to provide for this need.

Lenders can be picky about who they offer loans to - and your personal credit rating will have an impact on those decisions.

Avoid an OWN GOAL

» 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. 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. As part of that process, we should also be able to limit the number of applications made - since too many could result in a lower score.

What makes up your credit score?

A number of aspects will be considered, such as not appearing on the electoral roll, defaulted payments, missed credit card payments, any County Court Judgements (CCJs) or bankruptcy, employment position, salary, marital status and age.

Other useful LINKS

How much is your home worth?
Aside from getting it valued, you can check out the sale prices of comparable properties in your area: www.nethouseprices.com

Tracing lost or mislaid...

- **Bank, Building Society, or National Savings accounts -** www.mylostaccount.org.uk
Bank account: 020 3934 0329 (UK Finance)
Building Society account: 020 7520 5900 (Building Societies Association)
National Savings account: 08085 007 007 (National Savings and Investments)
- **Insurance policies, pensions, unit trust holdings and share dividends -** www.uar.co.uk
0333 000 0182 (The Unclaimed Assets Register)
- **Pensions -** www.gov.uk/find-lost-pension
0800 731 0193

What you can do...

Aside from making sure you've not been a victim of identity fraud, it's always a good idea to keep tabs on your credit rating each year to ensure your files are correct and up-to-date.

You can do this by contacting the following agencies and asking for a copy of your credit file (they may charge a small fee). If you find a mistake, you can ask for it to be corrected. Additionally, try to settle any debts, as that may help to improve your rating. Since companies will use different agencies, it may make sense to check them all:

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

This one brings together information from the above agencies:
Checkmyfile - Tel: 0800 086 9360 - www.checkmyfile.com

Also, if relevant, write to the lender if they have flagged something that you feel is inaccurate and you can ask for a note to be added to your file explaining special circumstances as to why you may have failed to settle a particular debt.

Ten tips

1. Check your files annually or before any major application.
2. Ensure that you're on the electoral roll.
3. Don't make too many applications within a short time period.
4. Sort out any address errors, and have one consistent address.
5. Never miss or be late on any credit repayments.
6. Shut down unused cards - as they could be a fraud risk.
7. Don't withdraw cash on credit cards in the UK.
8. Be consistent with your information across applications.
9. Don't let your partner or housemate's score wreck yours!
10. If you're separated, then try to financially delink too.

Please get in touch if you have any questions or require assistance.

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

Adding value to PROTECTION

In 2017, a sizeable 190,806 protection claims were paid out.* This may have assisted bereaved families (and helped keep a roof over their head), or perhaps enabled planholders to get back on their feet after a serious illness or injury. *(Source: *Association of British Insurers, May 2018 release)*

» Protection plans generally cater for the worst-case outcomes, and understandably cover issues that many would rather not contemplate. Yet when it is 'front of mind', it may be too late.

'Peace of Mind', when not 'Front of Mind'

The £150bn a year or so spent by the NHS, could help do its bit (if it can) to aid you on the road to recovery, but it's only tasked with the immediate issue of looking after you. It's largely your responsibility to find a way to **protect your own income stream,** or to consider the **implications of losing it.**

The insurance industry is well aware of these issues and recognises that early preventative options may help to allay bigger health issues down the line. For that reason it might no longer be the case that you pay out each month, with no further communication unless you need to claim. Instead, some insurers are building ongoing value-added benefits into their plans.

Differing value-added benefits

Here are some examples of the practical and emotional help that might now be on offer as part of the monthly premium you pay:

- Access to a remote GP whenever you need it.
- Access to other specialist support such as telephone counselling (bereavement, work-related stress, marital and family issues), carer support services, consumer rights, debt management advice, early intervention and rehabilitation services.
- The availability of apps and introduction of wearable technology to monitor your lifestyle. Which, in turn, may result in lower premiums, to acknowledge you're living more healthily.
- Other incentives to assist your general well-being, such as discounts off health club membership, and cinema tickets.

Some of those services could be accessed from day one of taking out a policy, and in some cases, there may be no need to make a claim.

KEY AREAS TO CONSIDER

Dependent on your own requirements, here are the key areas to assess, where one or more plans may meet your needs:

- **LIFE COVER** - pays out a lump sum when you die. This is often taken out to help pay off the mortgage (plus a bit more to provide for immediate needs). Albeit, it should still be a consideration too for those that are renting.
- **CRITICAL ILLNESS COVER** - pays out a lump sum when you have a specified serious illness, such as a heart attack, stroke or cancer, giving you time to get back on your feet.
- **INCOME PROTECTION** - pays you a percentage of your monthly income before tax (generally up to 60%) when you can't work due to illness or injury. The average ongoing payout period for individual plans is around 3 years.

If you'd like to hear more about suitable plans to meet your needs (and possibly those of your family), then please get in touch. As with all insurance policies, terms, conditions and exclusions will apply.

■ 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: 0345 894 8441 Email: info@liddleperrett.com Web: www.liddleperrett.com