

Mortgage & Protection

news

From Amiable Financial Services

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

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

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

Bank of England Rate Rise

Elsewhere, the November 2017 increase to 0.5% for the Bank of England's Bank Rate was 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.***

The Budget - Stamp Duty

Another issue to consider is the **stamp duty change for first-time buyers**, announced in the November 2017 Budget. The chancellor set out that it was abolished on all first-time buyer purchases up to £300,000. For first-time buyers of homes worth between

STAMP DUTY
Scrapped for 80% of First-Time Buyers. And a reduction for most of the others.***
(Source: HM Treasury, Autumn Budget, November 2017)

Here to help

£300,001 and £500,000, they too will not pay stamp duty on the initial £300,000, but will pay it on the price above that. There will be no relief though for first-timers buying a property over £500,000.

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

The importance of Advice

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

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

1. You're approaching the **end of your mortgage deal period**, and want to chat through the current deals on offer.
2. You might simply want to **change your existing arrangement**, possibly to raise further funds, or feel that it may be

financially beneficial (even when factoring in any applicable early repayment charges).

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

4. You may be 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 stamp duty changes.

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

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

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

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

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

■ Amiable Financial Services is a trading name of Akinnyi Arikawe, who is authorised and regulated by the Financial Conduct Authority.

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

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.





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.

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.

Protection claims Paid Out in 2016

LIFE COVER

- 99.5% of all Life claims
- Average payout of: £75,000 (term) £4,750 (whole of life)

CRITICAL ILLNESS

- 92.2% of all Critical Illness claims
- Average payout of £67,700

INCOME PROTECTION

- 84.7% of all Income Protection claims
- Average payout over time of £32,800

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

Much has occurred in recent years to support the First-Time Buyer such as a low interest rate environment, the Bank of Mum & Dad, various government schemes, and most recently, the abolishment of Stamp Duty for many.*

First-Time Buyers

» 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.

STAMP DUTY CHANGES*

Following the Autumn Budget, there is now relief from stamp duty payments for first-time buyers if the purchase price is £500,000 or less. If it's £500,001+, then you still operate under the standard residential stamp duty rules:

Stamp duty is charged on the proportion of the price that sits in a band

Purchase price band	Standard rates for a residential property	NEW RATES for First-Time buyers
Up to £125,000	0%	0%
£125,001 - £250,000	2%	0%
£250,001 - £300,000	5%	0%
£300,001 - £500,000	5%	5%
£500,001 - £925,000	5%	5%
£925,001 - £1.5m	10%	10%
Above £1.5m	12%	12%

If, for example, you bought a property for anything from £300,001 - £500,000, the saving against the old rules would be £5,000. Against the £208,000 price of the average first-time buyer property there would be a saving of £1,660. (Source: HM Treasury, Autumn Budget, November 2017)



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.

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.

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

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

* Immediately applicable in England, Wales & N. Ireland, but it's a Scottish government decision for Scotland.

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

There may be a fee for arranging a mortgage for you. This would typically be 1% of the loan. However, we will discuss your payment options with you and confirm the actual amount payable before we begin to provide our services.

- The contents of this newsletter are believed to be correct at the date of publication (February 2018).
- 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.