Autumn/Winter 2017

Amiable Financial Services

Mortgage & Protection news

The bulletin from Amiable Financial Services

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 has regularly said that any rise(s) would be measured and increase slowly over time. But it will be a concern for some, such as the 4 million or so* on (or tracking) their lender's variable rate, 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, to some extent in anticipation of a 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 currently 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 any deal that you're on, together with having one or more protection policies in place to ensure that you (and perhaps 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 snap-up one of the current deals on offer.

2. You might simply want to **change your current 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** that's saved up a deposit, are 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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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.**

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, July 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.

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 was 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) implemented special underwriting rules for landlords with a portfolio of four or more managed properties.

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.

Remortgage now?

If you do have buy-to-let 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 could be the time to act. *(Source: *Mortgage Brain, August 2017)*

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.

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, July 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 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 (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.

■ 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: 0783 2352407 Email: akin.arikawe@amiablefs.com Web: www.amiablefs.com