Winter 2014/15

Mortgage & Protection news

The newsletter from Brunel Mortgage & Insurance Services

Much has happened in the mortgage marketplace over the last year or so. Schemes have been launched to assist the homebuyer, and tighter lending rules have been introduced, meaning it may be tougher to get the loan you want. In spite of that, more money will be loaned on mortgages in 2014, than the year before, and 2015 may trump 2014. All of this occurs against the backdrop of a Bank Rate that has sat at 0.5% (at the time of writing) for well over five years.

(Sources: Council of Mortgage Lenders, July 2014 projections, and figures to October 2014, Bank of England, November 2014)

Increase on the horizon?

The signals from the Bank of England show that a Bank Rate rise could be on the cards. So if you are thinking about improving (or increasing) your current mortgage deal, looking for a new one to support a home move, securing funding for a buy-to-let property, or simply after a mortgage loan for the first time; then now could be the time to review your situation.

Decent deals on offer

Tighter lending rules introduced in April 2014, may have contributed to a slowdown in the year on year quarterly growth. However, the benefit to the consumer is that the lenders are currently fighting for market share, resulting in a spate of decent deals on offer.

(Source: Bank of England, Credit Conditions Survey, Q3 2014)

Of course the strict lending rules remain, albeit the regulatory body - the Financial Conduct Authority - feels that some lenders may have been over-zealous, in certain circumstances, when applying the new affordability criteria. So do take advice. And whilst we don't have a magic wand, we operate in this marketplace day-in, day-out and once we know your circumstances and requirements, we can then identify the most suitable solution for your needs.

Stamp duty changes

There may also be an extra benefit for you. Stamp duty, for residential properties, has been cut for 98% of homebuyers who pay for it. This was implemented with immediate effect, and the new stamp duty rules now operate on a similar basis to income tax - where each percentage rate charged will only apply to the part of the property purchase price that falls within that tax band.

The upshot of this is if you're buying a home for less than £937,500, you will pay less stamp duty, or the same. And looking more specifically at the average help-to-buy scheme purchase price of £185,000, there would be a saving of £650 under the new rules. As for the £275,000 cost of the average family home, £4,500 would be saved.

(Source: HM Treasury, Autumn Statement, December 2014)

If you'd like to hear more about this and where we could help with your borrowing needs, along with ways to protect you (and your family), then please get in touch.

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

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

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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.**

■ Brunel Mortgage & Insurance Services, Brunel Independent Mortgages and Brunel Mortgages are trading names of Mortgage & Insurance Services (SW) Ltd which is authorised by the Financial Conduct Authority.

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

Time to REMORTGAGE?

The enthusiasm to seek out a new mortgage deal whilst remaining in your home has been fairly subdued of late, but with a Bank Rate increase on the horizon that may change.

» The decision for many is to decide if it makes sense to wait until the increase occurs (and see how things pan out); or opt to act sooner when there's less of a rush and, perhaps, better deals could be on offer.

The additional element to throw into the mix is that many have sat with their existing arrangement, or on their lender's Standard Variable Rate (SVR) for a good few years assuming it might be difficult (or not beneficial) to remortgage. However, with recent house price growth, this could mean that the loan required may now represent a lower percentage of the home's value, enabling them to get access to deals, or to benefit from the better loan-to-value (LTV) ones on offer.

And there are plenty of reasons why it may make sense to remortgage, such as:

- Coming to the end of the current deal.
- Wanting to raise extra money to help fund much-needed home renovations.
- Looking for a more suitable deal than an existing SVR arrangement.

With those issues in mind, interestingly (as reflected in a Bank of England report), there has been a price war across the last quarter of 2014, with lenders fighting for market share. And who knows, that may continue into early 2015.

(Source: Bank of England, Credit Conditions Survey, Q3 2014)

Some possible benefits for you

If the current monthly payments are affordable then one route to adopt (if you secure a better interest rate deal) is to try to maintain your existing payments, enabling you to pay off your mortgage earlier than planned. Alternatively, you could use the money you've saved to invest elsewhere. Or perhaps put an amount towards the cost of insurance policies that help protect both you and your family against the unexpected.

Even if you feel you may struggle to remortgage, there could be good news through the 'transitional arrangements' under the Financial Conduct Authority's rulings. This means that as long as the borrower does not increase the mortgage amount (unless it's for essential repairs) and has a good payment history, an affordability assessment may not be required. Whilst the decision will ultimately sit with the lender, it may enable the borrower to move to a better deal.

Interest-only

According to the Financial Conduct Authority there are around 2.6m interest-only mortgages still in place.

(Source: Financial Conduct Authority, August 2013)

Should those in this group want to remortgage, then they may have to revert to a costlier repayment mortgage, which delivers the discipline of paying off both the interest and part of the capital amount each month. However, the chart below shows that the increased payments may not be as much as possibly thought, particularly if an SVR of 4% (or greater) is being compared to some of the better rates currently on offer.

If you're interested to see how remortgaging may work for you, then do get in touch. You may have to pay an early repayment charge to your existing lender if you remortgage.

The TYPICAL borrower

Opting for the security of a fixed rate mortgage seems to be the route that many are taking these days. Back in 2010 fixed rate deals accounted for 50% of all mortgage loans, by volume. In 2014 (up to September) around 90% are fixed.

And, pretty much all deals (almost 95%) are on a repayment basis - where both the capital and interest are being repaid.

As for the purpose of the loan, the vast majority in the first nine months of 2014 (69%) have used it for house purchase, resulting in remortgaging accounting for 31% of new loans. A far cry from 2008, when the share was largely reversed, where 63% of all loans were applicable to remortgaging.

(Source: Council of Mortgage Lenders, data to Sept 2014)

Mortgage Calculator

Here's how to use the mortgage payments calculator:
A £100,000 mortgage over 25 years, charged at a 2.5% interest rate would cost 100 x £4.49 (for Repayment) = £449 per month.

Monthly payments for a mortgage per £1,000 borrowed over 25 years

Interest rate %	Interest-only* £	Repayment £
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

* 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.

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

Healthy living

Life cover and health protection need not be products that you sign up for and file away, as there may be some incentives on offer, along with the peace of mind it delivers.

» Life is complicated enough in the current climate, if you're healthy and have a regular income. So imagine what it might be like if you (or your family) had the additional financial and emotional problems that death, a major illness or long-term injury may bring?

That's why it's important to try to protect yourself against these events - with the various insurances on offer such as life cover, critical illness (which pays out if you suffer from a range of specified serious illnesses) and income protection (which pays out a regular income should you be ill or injured and off work from beyond a certain period).

Incentivising you

Whilst ill-health or early death could hit anyone, the insurers are also aware that those who live a healthier lifestyle may shift some of the odds in their favour.

It's for that reason that some plans on offer these days are far more innovative with a decent degree of encouragement to live more healthily, by providing support in areas such as health checks, incentives for gym membership, or a host of offers to help get you out and about.

But, is it a grudge purchase?

Unsurprisingly, some of the most grateful (and gratifying) testimonials an adviser will see are from clients who took their advice, ensured they had suitable protection cover in place - and then sadly had to make a claim as a consequence of a death or ill-health.

Yet it's remarkable how few actually have this type of cover in place. Industry research showed that only 37% of those surveyed had life cover, 11% had critical illness, and 7% had income protection.

(Source: The Syndicate, January 2014 release)

However, it's not as if most people don't understand the benefits that having insurance cover can bring to their lives; such as claiming for a dent in the car, a burst pipe, a lost mobile, a travel claim, or a sick pet. Whilst it doesn't lessen the importance of being covered for those outcomes, it does demonstrate that less tangible events, like a critical illness, may be way down the list of priorities - until it unfortunately occurs!

So, is it the cost?

When asked about expected life cover costs, the same research showed that among 18-24 year olds, in particular, they felt life cover would cost £105/month, on average (the overall mean was £66). But, more specifically, if an 18-24 year old took out £150,000 of life cover over 25 years the average premium would have been under £10 a month!

(Source: The Syndicate, January 2014 release)

If you recognise the peace of mind protection cover could bring, and want to identify an affordable route for your needs (which may even deliver added benefits), then do get in touch.

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

Help-to-Buy

The two Help-to-Buy schemes have now been with us for a while and have delivered a decent degree of support, largely for the first-time buyer sector of the marketplace.

Over this period, first-time buyers represented 45% of all house purchases, but across the two schemes they accounted for more than 80% of take up - a reflection of the smaller deposit that's required to get onto the property ladder (from as little as 5%).

Help-to-buy already accounts for around 6% of all house purchases, where the schemes have been used almost exclusively to buy moderately priced homes in all regions of the UK, with no undue focus on any particular area or price bracket.

(Source: Council of Mortgage Lenders, Help-to-Buy release, Treasury and DCLG data, September 2014)

However, these schemes won't be the only option to consider, and in some cases there may be more suitable deals elsewhere. That's why it makes sense to have a chat with us to identify what's out there for you.

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

BUY-to-LET LANDLORD

With around 1.6m Buy-to-Let mortgages in place - an increase of almost 100,000 in the past year - this sector now accounts for over one in seven of all outstanding mortgage loans!

(Source: Council of Mortgage Lenders, Q3, 2014 figures)

» Buy-to-Let, which suffered badly at the outset of the financial collapse back in 2007/8, continues its recovery. So what does this marketplace offer the budding landlord or even an existing one that wishes to increase their portfolio?

A number of factors may currently work to the landlord's advantage, particularly if they are confident that renter demand will remain and that house prices (albeit slightly tempered of late) will continue rising.

The UK stock market - where there was much talk of the FTSE100 hitting 7000, has seen its value drop in recent times and has now recovered slightly to sit at around 6700.* Elsewhere, the return on savings remains low. So it's understandable that some would rather take control of their money and see if they can get a better return from the Private Rented Sector (PRS).

*(Source: *FTSE100, December 2014)*

Additionally, the planned relaxation on how the 55+s can access some, or all of their pension fund from April 2015 may mean, for example, that part of those funds might be used as a deposit to help facilitate activity in the buy-to-let marketplace.

Into the future, this sector is expected to continue expanding, with projections that the PRS will grow to 35% of all homes by 2032, partly assisted by some of the following factors:

- Not enough homes are being built to satisfy the demands of a growing population.
- The continuing difficulties some renters have in trying to save up for a house purchase deposit.
- Flexibility offered by renting.

(Sources: 2032 projection: Intermediary Mortgage Lenders Association, May 2014; Population: Office for National Statistics; Housing supply: Home Builders Federation, March 2014; Saving for a deposit: Scottish Widows, Savings Report, released April 2014)

Do your research

Of course, there's no guarantee that you'll be successful, or have continued success, so it's important that you always do your homework, and here are a few tips that may help the budding landlord, in particular.

Tip 1 - Differentiate between your own 'residential home' and an 'investment property'. You can fall in love (or enjoy a labour of love) with the former, but the latter should be a commercial decision.

Tip 2 - Speak to letting agents about areas that are good for renting and how much rent you can expect. And decide who you want to target; such as young professionals, students, or families.

Tip 3 - Do the maths. Once you've located a suitable area, work out how much you will need to borrow, and what you expect to get back. Most lenders will want to see a rental income of at least 125-130% of your monthly mortgage repayments.

Tip 4 - Plan for void periods, when you will have no income, but still have to meet property-related bills, such as council tax, and repair and maintenance costs.

Tip 5 - Be aware of the landlord insurances required, the regulatory issues (both from the UK and Europe), and the need to check out prospective tenants. Also, decide if you want to handle the process yourself, or appoint a letting agent.

Take advice

You'll also need to be aware of the impact of any Bank Rate rise, alongside political issues, such as the outcome of the General Election in May, and any reforms to immigration rules. This all shows that you need to be disciplined in your approach to buy-to-let.

And together with any discussions you may have with your accountant or solicitor, we can help you to assess your long and short-term plans, when looking at the buy-to-let mortgage deals, together with the necessary insurance cover. So please 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.
As with all insurance policies, terms, conditions and exclusions will apply.

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

Protect the FAMILY

In spite of healthier lifestyles and improving medical know-how, on average, almost 47 adults, aged 18-44, die every day.

(Source: Office for National Statistics, 2013 figures)

» If the unthinkable happened and the breadwinner died, would the family be able to cope financially, quite apart from the emotional turmoil? It's possible that there may be life cover in place to help pay off the mortgage. But what if the partner left behind has children and needs to provide for everyday items such as food, clothes, utility bills, childcare, or other expenses like holidays and birthdays?

If you think this may not add up to much, then consider the findings from an LV= survey that looked at the cost of raising a child to the age of 21. This stands at over £227,000 - equating to more than £200 per week! It's a pretty sobering figure should an income stream end due to an untimely death.

(Source: LV=, Cost of a Child report, January 2014)

Family Income Benefit

If you're a parent with children, then it may make sense to have in place a specific plan to help meet the needs of the children, in addition to any general life cover you may have.

In which case, Family Income Benefit may be one of the better value protection plans on offer. Rather than delivering a lump-sum should you die, it provides a regular, tax-free, monthly (or annual) payment for the dependants - from the time of the claim to the end of the plan term.

That's why it's well-suited to those with young families, as the idea is that it should be arranged to pay out until the children have grown up, so it's often taken out over a 10 to 20-year term, or whatever is appropriate in your circumstances. Although, please note that this type of policy has no cash-in value at any stage.

How it works

Say you took out 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 there was 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 £40,000. And if, fortunately, there was no claim at all within the 20-year period, then the policy simply runs the whole term without any payout.

Consequently, the resulting lower premium cost (because the potential payout decreases the further through the policy you get), could make the difference between you being able to afford the insurance or not.

Why not talk to us to find out more.

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

How to afford protection cover

You might feel you're already stretched to the limit to find the money to pay for protection.

However, it 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. In fact, you might be surprised to find out how quickly it all adds up.

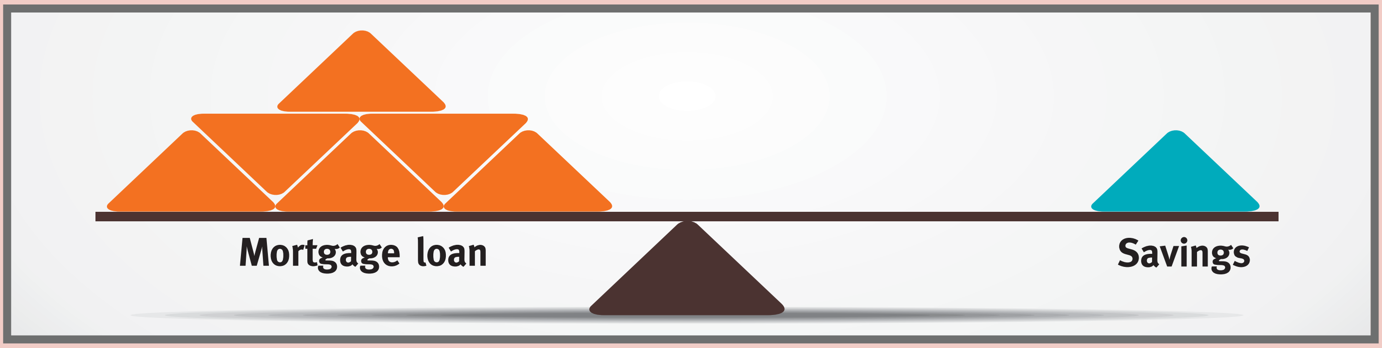
Treats	£ Cost/unit (estimated)
Soft drink	1.00
Snack	1.00
Magazine	1.75
Coffee	2.50
Pint of beer or lager	3.50
Glass of wine (175ml)	3.50
Taxi	5.00
Cigarettes (pack of 20)	7.00
Take-away meal	7.00
Total =	**£32.25**

We don't expect you to give up all of life's little luxuries. But, by keeping an eye on your spending, you could afford to set aside a little extra to improve your financial security.

For example, if you **cut out just one unit each week** of the above items, then you could **save around £140** across a month. And, in many cases, that'll be more than you need to cover the cost of your protection policy.

The BALANCING ACT

If you're looking for a way to get your savings to work harder for you, then an **Offset Mortgage** may be the option.



An Offset Mortgage allows you to pool both your savings and mortgage with your lender, where those savings are then 'offset' against the mortgage capital.

This route could be beneficial for the borrower if they have a reasonable amount in savings and have experienced low interest returns on those savings over the past few years. And as interest rates for borrowing money will tend to be higher than the rate received from saving money, it can make sense to use those savings to help reduce the monthly payments on a mortgage loan.

The additional benefit is that as no interest would be received against the savings, then there is no tax to pay, which is particularly beneficial to higher rate taxpayers.

How it works

If, for example, your mortgage loan is £150,000, but you have £30,000 in your savings account with the same lender, you will only need to pay interest on £120,000.

At which point you can choose how to benefit in two main ways:

- You have lower monthly payments, where your mortgage term remains the same, but you pay back less each month.
- Or you have a shorter mortgage term, where your payments remain the same.

And the beauty is that you can have access to your savings, if wanted, as it's not used to actually repay any of your mortgage, it just sits alongside it. All that happens is that the amount of mortgage interest paid increases if you withdraw any savings.

There are other benefits too. For example, with some products, there may even be the opportunity for parents (or grandparents) to use their own savings to help offset their children's mortgage.

Who it's targeted at

In general, anyone who has a decent amount in savings should consider this option. More specifically, it may be of interest to higher rate taxpayers for the tax benefits mentioned above. It could also appeal to people with fluctuating earnings, commissions and bonuses. Or perhaps, those who are self-employed and have to set aside a lump-sum to pay the taxman, which they might want to put to good use via an offset in the interim period.

And with the percentage of those who are self-employed at the highest it's been at any point over the past 40 years, accounting for 15% of those in work (4.6m), offset could see a growth in demand.

(Source: Office for National Statistics, Self-employed workers in the UK - August 2014 release)

Are there downsides?

Of course, offset mortgages will not be for everyone, and historically, the interest rates may be less competitive than those offered for a conventional mortgage loan. Although, the general view is that the differential in rates offered may be narrowing.

An obvious drawback would be if you didn't have enough in savings to warrant opting for this type of product. In which case it's best to have a conversation with us to do the maths with you.

Or, quite simply, you could use some of those savings to help deliver the deposit at the outset, which may even get you access to some of the better standard mortgage deals, should your loan to value enter the next percentage threshold.

As you need to weigh up the various options, it makes sense to talk to us to see if an Offset Mortgage is a beneficial route for you.

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.

The Financial Conduct Authority does not regulate taxation advice.

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We are independent and offer the client a choice of either paying a fee on application of between £199 and £399 plus we get commission from the lender, or the client can choose a fee only basis of £1,500 where the commission from the lender is refunded to the client.

■ 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: 01752 200 002 Email: enquiries@brunelmortgages.biz
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