Winter 2020

Mortgage & Protection news

The newsletter from The Mortgage Zone Ltd

The Mortgage Zone Ltd

Time for ACTION...

Overall, the certainty of the election result is likely to be welcomed by the financial markets, and may herald a return of homeowner, business and investor confidence in 2020.

Prior to the general election, a report conveyed that persistent economic and political uncertainty was continuing to deter both house buyers and sellers. Albeit it also expected house prices to pick up over the next 12 months. *(Source: RICS, December 2019)*

Whatever you may think of the election result, we now have some clarity around Brexit and the political direction being taken. From here, many people may simply want to get on with their lives and implement the property and mortgage plans they've possibly been holding back on, whether that's for:

- a **house move.**
- improving the **current property.**
- buying a **first home.**
- purchasing an **additional property.**
- expanding the portfolio as a **landlord.**

Alternatively, you may be coming towards the end of your current 'deal period', have been sitting for far too long on your lender's Standard Variable Rate (SVR), need to raise further funds, or are keen to move to a better deal.

With regard to the latter points, this is reinforced by the industry regulator, who estimated that 800,000 borrowers could switch their mortgage and make an average saving of £1,000 a year across the introductory rate period. *(Source: Financial Conduct Authority, Mortgages Market Study, March 2019)*

Whatever your plans, you are probably aware that we're still in a scenario where there are excellent mortgage deals on offer.

Of course, whilst the lenders are keen to do business, you still need to meet their stringent lending criteria, and that's why it's vital that you take advice. Particularly as it can be a confusing process, with so many product options and deal rates out there.

The Mortgage marketplace

Whilst the political uncertainty may have impacted on the property market, the mortgage loans sector has been in relatively good health. **Remortgages** are thriving as people look to lock into the lowest rates possible. The interest in remortgaging may come as no surprise when you consider that households now only move once every 20 years, up from every eight years in the 1980s.

Elsewhere, **First-Time Buyers** are at their highest share of housing sales since 2007, accounting for more than one in three sales (36%) and 50% of mortgages for home purchase. *(Source: UK Finance, December 2019 report)*

Don't forget Protection cover

Whether you're still living at home, renting, or a homeowner, it makes sense to have insurance cover in place to protect your life and/or loss of an income stream.

Talk to us to hear more about this, and how we could help with any mortgage needs.

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

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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.**

- The Mortgage Zone Ltd is authorised and regulated by the Financial Conduct Authority.
- There may be a fee for mortgage advice. The precise amount will depend on your circumstances, but we estimate that it will be £475.

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

Your biggest expense

With Property Debt accounting for over 90% of total UK household liabilities, it probably makes sense to seek advice.

(Source: Office for National Statistics, Household Debt Survey, December 2019)

For many of our needs we happily purchase online, but with the myriad of mortgage products out there, and the fact that it is such a sizeable and complex purchase, why wouldn't you seek professional help?

To reinforce this point, industry data shows that intermediaries (such as us) originate three-quarters of all 'residential mortgages' (by value), up from less than half in the 2009-12 period. With regard to landlord 'buy-to-let mortgage' business, this figure increases to almost 90%.

(Source: UK Finance, December 2019 report)

Work through the choices

We endeavour to deliver a human face to help make sense of the most suitable options on offer for you.

For example, the vast majority now opt for a fixed rate mortgage, but a tracker rate may be better for your needs. Securing the introductory mortgage rate for five years, is now more popular than the two-year deals, but again, flexibility offered by a two-year one may be more suitable.

In terms of the overall length of the mortgage, in the past, 25 years was the standard length. However, to reflect the development of mortgage terms running into our 60s and beyond, the 30 and 40-year terms are becoming more popular - delivering a cheaper monthly cost, albeit more expensive overall.

We're there for You

Additionally, we recognise that most of you have time-pressed lives. We will endeavour to reduce the hassle of filling out forms and applications.

We'll help navigate you through the raft of tighter rules, which now apply to 'evidencing of income' and 'affordability' measures.

We also take a view of the wider marketplace rather than just what's on offer from one high street lender.

Plus, we can highlight the insurance you should consider to cover the mortgage debt and your income stream(s).

So, irrespective of whether you're new to property buying, or an old hand, we have experience of dealing with all types of clients, enabling us to work towards identifying the most suitable product for you.

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.

Calculator

Monthly payments for a mortgage per £1,000 borrowed over 30 years

Interest rate %	Interest-only* £	Repayment £
0.25	0.21	2.88
0.50	0.42	2.99
1.00	0.83	3.22
1.50	1.25	3.45
2.00	1.67	3.70
2.50	2.08	3.95
3.00	2.50	4.22
3.50	2.92	4.49
4.00	3.33	4.77
4.50	3.75	5.07
5.00	4.17	5.37
5.50	4.58	5.68
6.00	5.00	6.00
6.50	5.42	6.32
7.00	5.83	6.65

Here's how to use the mortgage payments calculator: A £100,000 mortgage over 30 years, charged at a 2% interest rate would cost 100 x £3.70 (for Repayment) = £370 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.

Credit Rating - check yours

Quite apart from not being able to vote, if you're not on the Electoral Register it may result in a lower personal credit rating score.

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!

So do check your rating at one (or some) of the following:

Checkmyfile - Tel: 0800 086 9360
www.checkmyfile.com

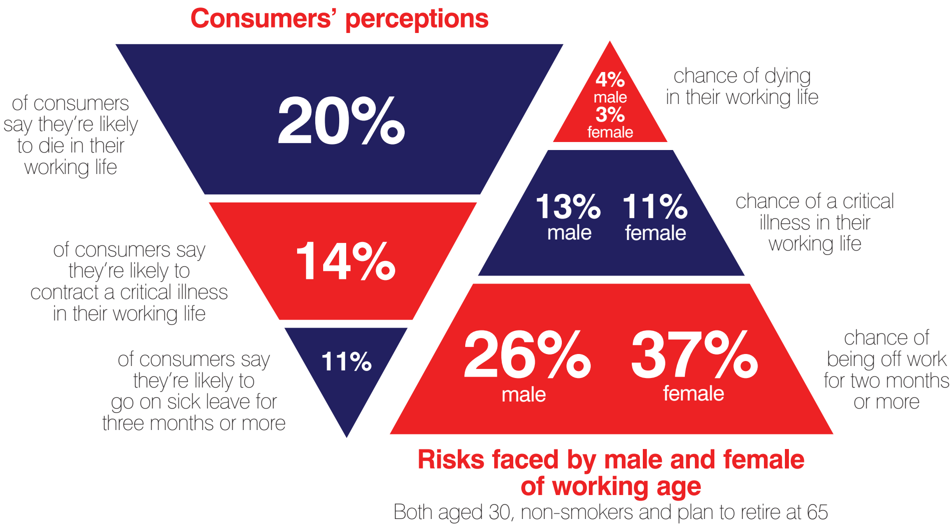
Experian - Tel: 0800 013 88 88
www.experian.co.uk

Equifax - Tel: 0800 014 2955
www.equifax.co.uk

TransUnion - Tel: 0330 024 7574
www.transunion.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.

Protection myths



(Source: Royal London, State of the Protection Nation, June 2019, referencing Pacific Life Re research)

We largely view 'death' as the most likely 'bad' health event that could affect us across our working lives. Yet, from the right hand chart above, you'll see that, in reality, you're far more likely to survive, and face a serious illness, or be off work for a lengthy period.

That said, this doesn't mean that you should disregard taking out life cover, as research shows that, on average, around 264 UK adults, aged 18-65 die each day.

(Source: Office for National Statistics, 2017 data, July 2018)

But possibly of greater importance is to consider further protection that's designed to lessen any loss of income should you face a serious illness, or be off work for a lengthy period.

There are two product offerings that can help protect you in these circumstances:

- **Critical Illness Cover -** pays out a lump sum when you have a specified critical illness.
- **Income Protection -** pays you a percentage of your monthly income when you can't work due to illness or injury.

Do they pay out?

Many assume that the plans don't pay up, yet a massive 97.6% of all claims were paid out in 2018, equating to £14.5m a day! *(Source: Association of British Insurers, 2018 data, May 2019 release)*

Do I even need it?

This is a possible further misconception, particularly as you may feel that it's difficult to contemplate needing a protection policy, until ***you really need it!***

Additionally, some will think that their employer will provide all of the support needed. This may be true, but do check your contract to establish the level of financial help you'd get, and (if it's not for death in service) for how long. Balance this with the care you receive from the NHS, and the limited financial support from benefits such as Statutory Sick Pay and Universal Credit.

Mental Health issues

In recent years there has been a far greater understanding of the need to deliver real and financial support to those insured who may suffer a mental health issue. Also, those that have previously faced this might feel that they would then be excluded from taking out future cover, such as Income Protection. However, some insurers may now take a more considered approach, rather than the standard 'accept' or 'decline' decision-making.

Added-value benefits

The insurance 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 parties - if a relationship is maintained throughout the policy term, as reflected by the following examples:

- Incentives to keep healthy.
- Specialist support - such as GP/nurse helplines, telephone counselling, carer support services, consumer rights, early intervention and rehabilitation services.

With such a wide range of options on offer, do talk to us to hear more.

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

Protection policies have no cash value and will not pay out at the end of the policy term without making a valid claim. If premiums are not maintained the cover will lapse.

Critical Illness policies may not cover all definitions of a critical illness, and the scope of coverage may vary from policy to policy.

Standard Variable Rate

There are at least 1.4m mortgage borrowers on their lender's Standard Variable Rate (SVR).*

This is a sizeable chunk of all mortgage borrowers and with the average SVR sitting at 4.90%, this group would be on an interest rate that's around twice the average 2-year fixed deal cost.**

Using the chart on page 2, those on an SVR (if it's a £100,000 mortgage, for example) might be able to remortgage and pay around £1,700 a year less (circa 5% rate vs. circa 2.5%).

*(Sources: *UK Finance, June 2019 data; **Moneyfacts, December 2019)*

Mortgage Prisoners

This broadly amounts to 150,000 borrowers, most of whom are stuck with a lender that no longer lends. However, the Financial Conduct Authority (FCA) has introduced new guidelines, which may overcome this problem, so do talk to us to hear more. *(Source: FCA, Nov. 2019)*

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.

The positives for Landlords

Landlords have been under pressure in recent years due to the massive array of regulatory and tax changes, however, there remain many positives about this sector...

Enthusiasm from Lenders

Lenders are demonstrating a willingness to support the buy-to-let market with excellent mortgage deals on offer and increased innovation to help meet the varying needs of landlords.

With regard to rates, they continued to drop in the final quarter of 2019, with the greatest reduction on longer-term fixed rate mortgages. For example, a 70% Loan-to-Value, 5-year fixed rate mortgage was 4.4% lower than 12 months ago.* This may have assisted the growth in popularity of 5-year deals vs. 2-year ones.**

*(Source: *Mortgage Brain, December 2019, **UK Finance, December 2019 report)*

Tenant demand

Renting can provide greater flexibility than home ownership. Of those already renting, research shows that 75% were content with their situation, with 33% happy to rent forever. And of those who aim to buy a property into the future, they're prepared to wait 4.1 years, on average.***

Tenant demand could increase further, as 34% of landlords have indicated that they intend to reduce their investment in the market, with only 12% saying they're looking to expand the number of homes they rent out - possibly impacting on the supply of available properties to rent.****

*(Sources: ***Landbay, October 2019; ****Residential Landlords Association, December 2019)*

Record asking rents across the UK

According to Rightmove, the shortage of new stock to choose from, coupled with strong demand from tenants, has led to record asking rents in all but two regions (Scotland and the North East) in Q3 2019. *(Source: Rightmove, Rental Price Tracker, October 2019)*

Option of Limited Company status

Due to the tax changes, 63% of landlords say that they intend to purchase their next buy-to-let property within a **Limited Company** structure. This means that they shouldn't be affected by the tax relief changes, and lenders may apply a less stringent rental calculation as a result. *(Source: Foundation Home Loans, October 2019)*

This route won't be right for everyone, particularly those with just one or two properties. Also, interest rates may be higher, and there might be implications for both capital gains tax and stamp duty. That's why it's vital that you obtain tax advice from your accountant.

Where we can assist You

We can't avoid the fact that the private rented sector is affected by the political and economic climate, along with the tax and regulatory controls.

So it's important for landlords to continue to seek specialist advice from us to ensure you make the most of the borrowing rates, rental demand and innovative products out there.

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.

Assistance for the **SELF-EMPLOYED**

The number of **Self-Employed** workers in the UK has almost hit 5m (representing 15% of the total workforce), yet this group still faces problems when it comes to securing a **Mortgage** and has eligibility concerns regarding **Protection** cover. *(Source: Office for National Statistics, Labour market overview, December 2019)*

Securing a Mortgage

Whilst lenders may not necessarily view the self-employed as a greater risk to lend to, they do have issues about how to assess their ongoing income.

This is compounded by the way some self-employed organise their payments to ensure they're tax-efficient, which may work against them when endeavouring to demonstrate to a lender they have the ability to fund the loan they wish to take out.

The term 'self-employed' can also present a problem for lenders, as it pulls together a whole host of different individuals, such as contractors, sole traders, gig economy workers, freelancers, and early-stage start-ups. This could mean that a myriad of workers with differing income streams and earning potential are lumped together, resulting in the computer possibly saying: 'no'.

However, interestingly, those self-employed who have jumped through the hoops and secured a mortgage may be a safer bet than first-time buyers, for example, as analysis shows that they could have taken out a mortgage 29% larger than the original loan borrowed. *(Source: Kensington, Affordability Tracker, Q2 2019)*

Along with possible conversations with your accountant to discuss how your payments are structured to make you more appealing to a lender, it's vital that you also talk to us, to help identify the lenders that may be interested in doing business with you. And there are a number of them that are more amenable to this sector, and why wouldn't they be when there's a marketplace of 5m individuals to target!

Income Protection

Here's a fictional example of how an Income Protection plan could play out...

Adam runs an IT consultancy. In the last tax year he earned a gross salary of £90,000. After reviewing his monthly expenditure he took out a Self-Employed Income Protection policy covering 50% of his annual earnings, totalling £45,000 or £3,750 per month.

He opted for long-term cover that would pay out the tax-free monthly benefit for as long as he may need it, if he was unable to work and earn an income. He also opted to defer any payouts for six months, as he had sufficient savings to see him through this initial period, resulting in cheaper premiums.

Two years after taking out the policy, he developed cancer, and his claim was approved. In total, Adam was off work for three years. Over this period, he received 30 monthly payments of £3,750, totalling £112,500, enabling him to meet his financial obligations whilst off work, and to focus his energies on recovery.

There are a multitude of providers and product choices to consider, so it makes sense to take advice.

Protection considerations

Nearly a third of self-employed and contract workers would run out of money within a month if an accident or illness stopped them working. *(Source: LV, November 2019)*

Should they be off work for a lengthy period due to illness or injury - the majority of self-employed workers will not be entitled to Statutory Sick Pay and would, instead, have to pursue a lengthy claim for benefits such as Employment and Support Allowance, and any other benefits, dependent on the severity of the illness. Yet it's unlikely that payouts would equate to the average UK household expenditure of almost £600 per week.

(Source: Office for National Statistics, Family spending in the UK, January 2019)

That's why it's possibly vital that the self-employed consider income protection, as well as life and critical illness cover.

Income Protection would deliver a regular income, for a short-term period, or even up until retirement. It could be highly relevant, yet many wrongly believe that they won't be eligible for it. That's why you should talk to us.

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

Protection policies have no cash value and will not pay out at the end of the policy term without making a valid claim. If premiums are not maintained the cover will lapse.

Critical Illness policies may not cover all definitions of a critical illness, and the scope of coverage may vary from policy to policy.

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New Kids on the Block

If you're unsure about becoming a **First-Time Buyer** - research shows that the average homeowner could be better off by £352,500 over the next 30 years, compared to the average private renter!

(Source: Intermediary Mortgage Lenders Association, October 2019)

That figure is comprised of the £133,700 the average homeowner could expect to save when paying for a mortgage rather than rent over that period, plus the additional £218,800 of equity gained from paying off that mortgage.

It doesn't include any possible house price inflation over the 30-year period. Historically though, house prices have risen at an average of around 4.3% a year over the last 30 years, although growth is far more subdued at the moment, at about 1.4% nationally, over the year. *(Sources: Nationwide, House Prices, to Q4 2019, and December 2019)*

Getting the Deposit together

So what's stopping all renters jumping on board? Some will prefer the flexibility renting provides at this period in their life. Others will be concerned that they may not meet the more stringent controls that are now in place for mortgage lending (do talk to us if that's your concern). But possibly the biggest stumbling block is the struggle to get together the deposit.

Fortunately, the government and marketplace recognise this and there are Help-to-Buy (or similar) schemes on offer, alongside normal lender products, that only require a **5% deposit.**

Additionally, if you have just a 5% deposit, and opt for a Help-to-Buy (or similar) scheme, generally for new-build properties, then the government would loan an extra percentage enabling you to access the better Loan-to-Value (LTV) deals on offer. Broadly, the lower the percentage of funds you require from the lender, the lower the interest rate may be.

As part of that process you may also look to what's known as the **Bank of Mum & Dad** to help get some, or all, of that deposit together. In 2019, the average contribution from mum, dad, other family members and friends amounted to a sizeable £24,100, assisting almost 260,000 property purchases.

(Source: Legal & General, Bank of Mum & Dad, 2019 report)

Some parents might be wary of providing a deposit for a child who may be moving in with a partner, should they break up down the line. To counter this concern there are other ways that financial support could be provided, such acting as a guarantor, which might provide some ring-fencing.

Outside of this, options such as **shared ownership** might also be worth investigating, which could help reduce the upfront costs.

STAMP DUTY BENEFITS

First-time buyers in England and Northern Ireland continue to enjoy a lower stamp duty cost 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	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%**

** Different rules apply to Scotland and Wales.*

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

Our offering

The irony for many will be that they could be paying more on monthly rent, than they would for a mortgage, proving they can afford the payments - but unfortunately, it's not as simple as that!

To take the first step onto the property ladder, it makes sense to have a conversation with us as early as possible in the decision-making process. We would help navigate you through the affordability, evidencing of income and credit rating hoops, and identify some of the decent deals that are on offer.

■ 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: 01773 535354 Mob: 07973 815788 Email: paul.simms@tmzh.co.uk