Autumn 2020

The Mortgage Zone Ltd

Mortgage & Protection news

The newsletter from The Mortgage Zone Ltd

Lots to Consider

Off the back of the Chancellor's announcement for further financial support, this should help deliver confidence to the wider economy regarding future planning - including your mortgage and protection needs.

That said, you may still feel confused about identifying the best way forward on the mortgage and protection front. With our extensive knowledge of this marketplace, this is where we can help.

You may also have concerns, for example, if you've been **furloughed,** are a **first-time buyer,** are **self-employed,** or have taken a **mortgage payment holiday.** Whilst we can't resolve every issue, we're fairly adept at finding solutions.

Although, even in our shoes, it can be hard to keep up. With lenders withdrawing from certain markets, then returning; products that were available at 8am, then unavailable at 8.15am; and so on.

Housing mini-boom

On the upside, the Chancellor recognised early on that the property sector can be the perfect engine to help the economy to recover.

It's partly for this reason that the **Stamp Duty reduction** was introduced (see box item), which could deliver **a saving of up to £15,000** until 1 April 2021, when the previous rates will be reapplied.

If you then add the pent-up demand from the lockdown period, along with a reassessment by many on how they want to live their lives, it helps to create a buoyant property marketplace.

Figures from Rightmove endorse this. Homemovers have put more property on the market, and agreed more sales than in any other month since tracking this data for the last 10 years - worth a record £37bn!

More recently, Nationwide's house price figures set out a 5% UK-wide annual growth for September, equating to the highest annual increase since September 2016.

(Sources: Rightmove, August 2020; Nationwide, 30 September 2020 release)

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

STAMP DUTY

Applicable to a residential property purchase in England and Northern Ireland.

Up to £500,000	**0%**
The next £425,000 *(the portion from £500,001 to £925,000)*	**5%**
The next £575,000 *(the portion from £925,001 to £1.5m)*	**10%**
The remaining amount *(the portion above £1.5m)*	**12%**

■ This is applicable on purchases up to 31 March 2021, and thereafter it reverts to the rates in place prior to 8 July 2020.
■ Add a 3% surcharge to the above for those buying an 'additional' property.
(Source: GOV.UK, 8 July 2020)

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

The Mortgage Zone Ltd
2 Marshall Street
Heanor
Derbyshire DE75 7AT

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

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 £495.

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

Lots to Consider (contd)

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What does it mean for you?

The positive developments above need to be balanced by what may be ahead. We can't lose sight that we're in a recession, and there will be further job losses. Plus, as the mortgage payment holiday initiative nears an end, this too may bring problems. These events are likely to have an impact on the property marketplace. Also, no-one quite knows how COVID-19 will play out.

However, it's not as if the government and lenders aren't aware of the issues and both are keen to deliver support.

With regard to what's on offer from lenders, there are still some **excellent mortgage deals** out there. The lower the percentage of loan that you need, the greater the likelihood that there will be a wider range of products on offer, a decent rate and the possibility of being accepted for a loan.

BUT - rates are starting to creep up.*

AND - the strict rules applicable to 'evidencing of income' and 'affordability' still apply across the board.

*(Source: *Moneyfacts, 7 September 2020 release)*

Other positive initiatives

In addition to the colossal amount of money that the government has pumped in to help us through this crisis, there are additional initiatives that would also be of interest to existing and potential homeowners.

The government intends to **make the planning process easier** for those that might want to add, for example, additional space above their current home, subject to neighbour consultation. Additionally, it wants to deliver greater freedom to adapt the use of vacant buildings and land in town centres to create new residential properties.

The smaller renovation projects may be easily covered from existing savings, or even money saved from not going on an overseas holiday! For the bigger projects, then talk to us about a mortgage or remortgage to help raise the funds needed.

Finally, from the end of September, you can apply for government vouchers under the **Green Homes Grant.** Against certain criteria, this will provide £2 for every £1 homeowners and landlords spend to make their homes more energy efficient, up to £5,000 per household. Or, in the case of those on the lowest incomes - up to £10,000. It's applicable in England - but similar schemes may exist elsewhere in the UK.

Do get in touch to see how we can help. 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.

UPDATE... Furloughed Workers

■ In total, around 9.6m jobs were furloughed. By September, this number had reduced to around 4m.

(Sources: GOV.UK, August 2020, Office for National Statistics, September 2020)

■ The Chancellor announced in September that a **NEW Job Support scheme** will launch in November and will run until April (the current Job Retention scheme ends 31 October).

- It will only be open to employees who can work at least a third of their normal hours.
- These hours worked will be paid for by their employer, while the government and the employer will each pay a third of the remaining hours not worked.
- That would mean, for example, an employee working just 33% of their usual hours would still receive 77% of their normal wages.
- The level of grant will be calculated against the employee's usual salary, capped at £697.92 a month, and firms will not be allowed to make staff redundant while they are on the scheme.
- Businesses will be eligible even if they've not previously used the furlough scheme.

■ This new scheme will sit alongside the previously announced **Job Retention Bonus,** that's designed to help ensure as many furloughed workers as possible return to (and remain in) the workplace. This scheme will provide a one-off bonus of £1,000 for the business, applicable to each furloughed employee (who's paid over £520/month), who is still employed as of 31 January 2021.

CURRENT MORTGAGE ISSUES

■ For those who are on furlough, different lenders have set different criteria with regard to assessing income and affordability.

■ Some may want the employer to top up the salary to qualify, or may restrict the loan-to-value offered to around 85%.

■ Others may want to see a fixed 'return to work' date.

In short, it's a complex situation, but options may well exist with lenders who are happy that you meet their criteria.

Screen Time!

We can provide advice on both your **mortgage** and **insurance** requirements in a way that best meets your needs - by phone, email, videoconferencing or possibly a socially-distanced meeting.

» One key piece of advice - unless there are mitigating circumstances - is not to sit on your lender's Standard Variable Rate (SVR) once you come to the end of your deal period. As the chart below shows, you'll be paying around twice as much in interest!

Average Fixed Rates vs. Standard Variable Rate (SVR)

	7 September 2020
2-year fixed rate	2.24%
5-year fixed rate	2.50%
SVR	4.44%

(Source: Moneyfacts, 7 September 2020)

Naturally, there are fees to pay with a new deal, so you need to do the maths. Our discussions would also cover issues such as the merits of a fixed vs. tracker mortgage, and the length of the mortgage deal, such as the 2 or 5-year plans above.

The process

Of course, you can undertake this yourself. However, you don't want to make too many unnecessary applications, which may have a negative impact on your credit rating.

That's why it makes sense to ask us to assess the wider marketplace in light of what we've established with regard to your financial position and particular needs.

Also, we'd endeavour to help reduce the hassle of filling out forms. Plus hold your hand throughout the process, and liaise with the various parties along the way.

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 a suitable product for you.

What if life goes wrong?

The current challenging times may well have focused your thoughts on having some **protection insurance** in place.

This could be **life cover** to deliver a lump sum to your family, if the insured person dies. Or insuring yourself against suffering a **critical illness,** or being **off work long-term** due to illness or injury.

Already have cover in place?

Even here it's worth having a conversation (if it's not a policy that we've recently set up), as there's been so much innovation over the last few years. With many policies now fully recognising mental health issues, plus lots of value-added benefits, such as medical advice and fitness support.

Also, as a consequence of the current crisis, you may even be thinking about saving money and cancelling a policy. This could then prove to be more expensive, with more caveats, and an age weighting, should you return to start a new one with the same insurer. The insurers are mindful of this and some will allow you to stop paying premiums for an agreed period, with certain rules.

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.
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.

A record **98.3%** of all **PROTECTION CLAIMS** are met
- equating to a sizeable **£15.8m a day** in payouts,
and how that plays out for the key sectors are as follows:

LIFE COVER	CRITICAL ILLNESS	INCOME PROTECTION
■ 99.6% of all Life claims ■ Average payout of: £77,535 (term) £3,465 (whole of life)	■ 91.6% of all Critical Illness claims ■ Average payout of £67,573	■ 87.2% of all Income Protection claims ■ Average payout of £17,729

(Source: Association of British Insurers, 2019 data, May 2020 release)

UPDATE...
Mortgage Payment Holidays

■ Around 2m mortgage customers (including buy-to-let borrowers) have taken a mortgage payment holiday*, and for those that haven't, they may be able to apply for one up to the 31 October 2020.

THE FUTURE

■ Whilst over 70%* of participants have returned to making full mortgage payments, the Financial Conduct Authority recognises that some may require further help and has asked lenders to deliver structured payment plans.

■ However, this support will come at a price, including being flagged on your credit file.

*(Source: *UK Finance, August 2020)*

Finding a Way...

In a recession, lender's enthusiasm to lend to **First-Time Buyers** tends to wane. The upside for the first-time buyer is that property prices generally drop - yet the opposite is occurring at the moment!

That said, the government recognises that the first-time buyer is an important cog in helping to keep the property market moving. To assist this process there are various government schemes across the UK that are designed to help get the first-time buyer onto the property ladder.

When you consider that the average monthly rental price for a new tenancy in the UK stands at £985, this may motivate many to want to buy a property and possibly pay less per month in the process. *(Source: HomeLet Rental Index, August 2020)*

Getting the Deposit together

So, what's stopping all renters jumping on board? Some will prefer the flexibility renting provides, others will be worried about the stringent controls that are now in place for mortgage lending. But possibly the biggest stumbling block is getting together the deposit.

According to Moneyfacts, the average deposit for those buying their first home has risen to £47,059, equating to around a fifth of the average UK house price.

Of course, there are mortgage deals available that require a smaller deposit, but this is where the lender's enthusiasm has waned. Back in March (the month when lockdown started) there were 1,184 mortgage products requiring a 10% deposit, or less. By September, this had reduced to 76!!

Rates have also increased. Back in March the average interest rate for a two-year fixed rate mortgage with a 10% deposit was 2.57% - it's now 3.54%. *(Source: Moneyfacts, 7 September 2020)*

However, if you consider that the average first-time buyer loan is around £176,000*, then a 3.54% rate would equate to a repayment mortgage of about £800 per month. Unlike the £985 rental payment figure mentioned earlier, this lower amount would include paying off part of the capital borrowed, as well as the interest owing. *(Source: *UK Finance, January-June 2020)*

Look at alternative funding options

If you're lucky enough, then there is the **Bank of Mum & Dad** to help get some, or all, of that deposit together. In fact, nearly one in four housing transactions (175,0000) will be backed by the Bank of Mum & Dad in 2020, equating to an average of around £20,000 each to help those borrowers with their deposits, and possibly gain access to better interest rates. *(Source: Legal & General, September 2020)*

Alternatively, there are **Guarantor Mortgages**, which might be a more suitable route for family support. Or consider **Shared Ownership**, in which case you buy a percentage of the property now, and can purchase more into the future (see box item).

Talk to us

With so much to consider, do have a conversation with us as early as possible in the decision-making process.

We are working with these issues day-in/day-out, and fully understand the options on offer. And, as part of our offering, we would endeavour to help navigate you through the affordability, evidencing of income and credit rating hoops.

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

SHARED OWNERSHIP

■ A new Affordable Homes scheme announced in September, will also deliver a new model for Shared Ownership for purchasing new homes, and will:

- reduce the minimum initial share you can buy in a property from 25% to 10%.
- allow people to buy additional shares in their home in 1% instalments, with heavily reduced fees.
- introduce a 10-year period for new shared owners where the landlord will cover the cost of any repairs and maintenance.

This scheme is applicable to England only, other parts of the UK will deliver different support.

Mortgages for the Self-Employed

Self-Employed workers have been hit hard by the onset of Coronavirus. In addition to the likely loss of business income, many would have fallen through the net with regard to obtaining government funding to help see them through. *(see box item below)*

The upshot of this is that we've seen a record quarterly drop of 238,000 in the number of workers that are self-employed - an amount that now stands at 4.76m.

(Source: Office for National Statistics, Labour market overview, August 2020)

That said, it's quite likely that many self-employed workers would have been fairly adept at swiftly restructuring their offering to ensure revenue continued to flow in. And, following lockdown, may be reassessing how and where they live, and looking to fund renovations, or seek a new property.

Stricter lending requirements

However, even prior to COVID-19, the self-employed - which still represents almost 15% of the total workforce - had sizeable hoops to jump through to secure a loan.

The issue with lenders is that unlike assessing a payslip, the income stream of the self-employed is not as clear cut.

This is compounded by the way some self-employed organise their payments to ensure they're tax-efficient (such as more income via dividends than salary). This could work against them when wanting 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. 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'.

Impact of COVID-19

Beyond this, the economic impact of the pandemic means that even more information is now required, such as:

- wanting to know if the client has experienced a reduction in their self-employed income due to COVID-19.
- is in receipt of the government Self-Employment Income Support Scheme, or a Bounce Back Loan.
- were any of their staff furloughed (if applicable).
- more recent bank statements, as the latest accounts would probably apply to the period prior to COVID-19.

In short, mortgage providers are looking for proof the business is viable, and to understand how the pandemic has affected the work and income of the applicant.

How we can help

We are already dealing with other self-employed workers, and know our way through this particular mortgage maze, and would approach the lenders that we know are more sympathetic to your particular situation.

Self-Employment Income Support Scheme

- You may have been one of the 2.7m Self-Employed workers that benefited from the First Grant. *(Source: GOV.UK, 17 August 2020)*
- Either way, you can claim for the Second Grant up until 19 October 2020.
- Eligible individuals can claim a taxable Grant worth 70% of their average monthly trading profits, paid out in a single instalment covering three months' worth of profit, and capped at £6,570 in total.
- Also, following the Chancellor's statement (24 Sept.), this scheme has now been extended for a further 6 months. In the initial November to January period, the Grant would cover (for those eligible) 20% of average monthly trading profits, paid out in a single instalment covering 3 months' worth of profits, and capped at £1,875 in total.

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

LANDLORDS have proved to be a fairly resilient group, and may have built up a greater resolve than most to face the current recession.

As it stands, in this strange property market, the average monthly rental income across the UK is still holding up at £985, up 1.5% year on year. In fact, 11 of the 12 regions all showed an increase, with the exception of Greater London - albeit the average rental value there was £1,653 - 100% higher than the figure for the rest of the UK (£825). *(Source: HomeLet Rental Index, August 2020)*

Financial stability of tenants

The main concern for landlords into the near future will be hoping those rental payments continue to come through, as there's the likelihood that some tenants will fall on hard times as the furlough scheme comes to an end, raising the possibility of void periods.

However, it's not just a case of 'sit and wait', as there are a number of initiatives landlords could undertake to help recession-proof their business.

Time to remortgage?

Buy-to-Let **mortgage rates remain low** although - as with the residential sector - rates are starting to creep up. So, if you haven't already assessed what's on offer, perhaps it's time to take stock. Dependent on the deal you're on, there may be savings to be made. *(Source: Moneyfacts, 8 September 2020)*

Alternatively, you may want to consider pooling together your properties into one mortgage, but do be aware there are benefits and disadvantages of this course of action. The same can be said about considering a **Limited Company** structure to help mitigate the tax changes. As well as talking to your accountant about these issues, do get in touch with us, as we can look at your particular situation and help identify what may work best for you.

Make new investments, and/or restructure

Landlords will also benefit from the short-term reduction in **Stamp Duty** fees. As was the case previously, the 3% surcharge still needs to added, but the current charges could deliver a substantial saving on a property purchase ahead of 1 April 2021.

With regard to purchasing additional properties, the normal disciplines apply, such as:

- don't buy a property that you'd like to live in yourself. You need to **love the deal, not the property.**
- research the area and **understand market conditions.**
- decide on the **type of renter you want.** Properties that can be let, for example, to **multiple tenants,** such as Houses in Multiple Occupation (HMOs) could help to spread the risk of any rental voids, as you'll receive an income from various people.
- shying away from **student rents,** in the current climate, and possibly being drawn to a slightly different form of renting - **holiday lets.** The rise of the 'staycation' will increase the demand for this type of property. But again, talk to us, as this is a different form of borrowing compared to the normal buy-to-let loan process.

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

■ **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**