Baneberry Finance

Mortgage & Protection news

The newsletter from Baneberry Finance Ltd

In the current marketplace it makes sense to take stock.

TARGETING your needs

» With an improving economy, house price growth and decent loans on offer, many will feel that this is the time to take stock of what they'd like to achieve now and over the next few years. Here are a few areas that could be on that checklist:

- Moving to a more suitable home.
- Finally undertaking the much-needed renovations to the existing one.
- Purchasing a first home.
- Expanding an existing property portfolio to add a holiday home.
- Increasing activity within the buy-to-let sector, or deciding to move into it.
- Or it might just simply be a question of making the money work harder by seeking out a better loan than the one currently in place.

Consider the existing climate

After the fall in house prices following the 'credit crunch' back in 2007, we are now seeing sizeable annual growth in the average UK house price - up 11% in the year to August 2014. It's currently standing at around £189,000 (surpassing the 2007 peak), although there continues to be wide price variations across the country.

(Source: Nationwide House Prices, August 2014)

This growth has meant that the Bank of England is constantly monitoring house price movements and already has various options at its disposal to help deliver a degree of control. Added to this was the announcement in June by the chancellor, George Osborne, that he's handed the Bank extra powers *'over the size of mortgage loans as a share of family incomes or the value of the home'*. At the same event, the governor of the Bank of England, Mark Carney, said that a Bank Rate rise *'could happen sooner than markets currently expect'*. Although he added that any increase *'will be gradual and limited'* and that the financial markets expect it *'to rise to only 2.25% over the next three years'*.

(Source: Mansion House speeches, June 2014)

Aiming to please

Stricter borrowing rules introduced in April of this year have heightened the need to take advice. And like other professionals, we are required to attain qualifications and meet certain industry standards, which enables us to:

- Assess your needs and identify the more appropriate deals, with the additional benefit that we'd endeavour to avoid multiple applications (as this may have an adverse affect on your credit rating).
- Save time and effort on your part, by liaising with lenders and other key parties to help keep the whole process moving along.

Some of the topics you may need to consider are covered in this issue.

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.

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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.**

- Baneberry Finance Ltd is Authorised and Regulated by the Financial Conduct Authority.

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

The LANDLORD

With almost half of all current house purchase activity coming from first-time buyers, should there be concerns for the Buy-to-Let market?

(Source: Council of Mortgage Lenders, April 2014 figures, released June 2014)

» Apparently not - is the most likely answer. Overall, the rental sector seems to be thriving and presenting landlords with significant opportunities. And here are some of the reasons why:

■ Population growth and housebuilding

The UK is expected to see a continued population growth (rising from about 64.5m in 2014 to almost 72m by 2032). And, along with an increase in single occupancy, it will put even more pressure on the need to build the circa 200,000+ homes each year that are already required to meet the current demand.

Whilst Help to Buy has delivered a boost for the new-build market, prior to this, housebuilding had only been hitting around half of the required number of new homes. And, a decade on from the *Barker Review of Housing Supply,* this means that we're already standing at around one million homes short of what the report set out needed to be built each year for the last ten years.

(Sources: Population - Office for National Statistics; Housing supply - Home Builders Federation, March 2014)

■ Renter attitudes

Many renters are very happy to remain just that, as it delivers flexibility and doesn't require them to jump through the more extensive credit check, affordability and evidencing of income hoops that may be applicable to securing a mortgage loan.

Additionally, there would generally be the requirement to build up a decent-sized deposit for a future property purchase. Yet in the case of a third of private renters - no money is put aside at all. And, for those that do save, it may still take at least over four years to build up the required amount, when throwing into the mix the lower deposit options of the Help to Buy schemes.

(Source: Scottish Widows, Savings Report, released April 2014)

■ Future trends

The above issues have contributed to the projection that the proportion of households renting privately is on course to hit over 35% by 2032, and combined with the social rented sector, it would mean over 50% of all homes may be rented by 2032. Conversely, owner-occupied properties would have dropped from over two-thirds of the market back at the time of the crash in 2007, to under half by 2032.

(Source: Intermediary Mortgage Lenders Association, May 2014)

■ Landlord views

Research has also shown that more than a third of landlords see their input in this marketplace as a long-term investment - with over a quarter of all respondents planning to keep their portfolio beyond retirement.

(Source: Precise Mortgages, Mortgage Voice, May 2014)

■ Take advice

So, if you're already a landlord, then you'll possibly concur with much of this and do talk to us if you'd like to review your borrowing options.

If you're thinking of entering this sector as a new landlord (or are an accidental one through house moves, inherited property, etc), then it's important to take advice; from us, from letting agents and fellow landlords to establish the best way forward.

You should not enter this sector lightly, as there are numerous regulations to comply with - and do decide if you want to manage it all yourself or pass some of it onto a letting agent.

As part of that process, you'd need to consider issues such as the right area, property type, typical renter (student, families, etc), regulatory and insurance requirements. And, of course, you'll need to do the maths to work out the expected rental income vs. the cost of the loan, plus any additional expenses and possible void periods.

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.

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

Could you manage?

Would you (or your family) cope financially if faced with an untimely death, serious health issues, or other seismic shocks to the existing lifestyle?

» Many of us may feel *'it'll never happen to us'*, or that *'the state, (or employer) will step in'*, but the latter options may offer limited support, and often for a short period. As for the former - the protection industry is not short of sobering research on the numbers that have faced serious illness, job loss, or an early death.

Of course, you could dip into your savings. Although this may be a worrying issue for many families, as 40% have less than £2,000 put away. *(Source: Aviva Family Finances Report, Dec 2013)*

That's why protecting you (and your family) should be an integral part of your financial planning, enabling you to then concentrate on building for your future, without being constantly distracted by the fear of the unknown.

Start somewhere

At the simplest level it should deliver life cover protection to help pay off the mortgage (yet plenty don't even have this), and whilst you don't want to be over-insured, there are a number of health and life stage issues you really should consider (see right, for example).

Of course, you could opt to do your initial analysis online, but you may soon find that decisions need to be made with regard to judging the varying policies on offer, and the subsections within this, such as is it to be 'single or joint cover', 'inflation linked', and so on? That's why ultimately it makes sense to take advice.

What you may also find once we start assessing your needs is the premium could possibly be lower than you anticipated. Either way, a small degree of additional budgeting at your end - such as cutting out the odd take-away, high street coffee, cab journey, trip to the cinema, etc - could put you well on the way to finding the premium required, without too much financial pain.

You'll also be pleased to hear that the policies tend to pay out too. Latest findings show that for life, critical (serious) illness and income protection, almost 99,000 claims (averaging out at 270 families per day) were paid out last year, which equates to 97% of all claims submitted. *(Source: Association of British Insurers, 2013 figures, released May 2014)*

As it can be a complex area, it's essential that you do take advice.
As with all insurance policies, terms, conditions and exclusions will apply.

Protecting the Children

If you think having protection in place is something you could do without, then consider this. The cost of raising a child to the age of 21 sits at over £227,000 - equating to more than £200 per week! *(Source: LV=, Cost of a Child report, January 2014)*

That fact alone should help focus thoughts on how to meet this expense should an income stream dry up, quite apart from considering the normal living and accommodation costs.

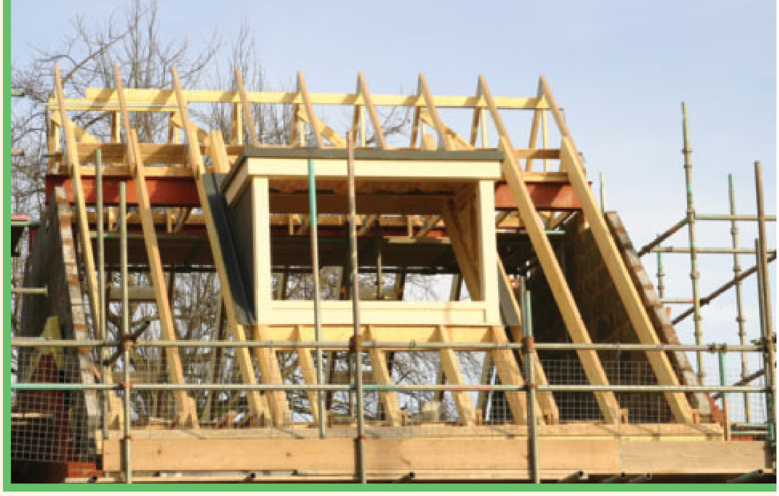
As part of this process, perhaps either the protection of a lump-sum life cover policy should be considered, or products that are designed for families with children, which can payout over a specific timeframe following the death of the insured.

Of course, the possibility of one (or both) parents dying is unlikely, but it could happen. And according to the Childhood Bereavement Network around 1 in 29 children and young people of school age have experienced the death of a parent, brother or sister.

Consideration 1 - If both parents died and there was no Will or Guardianship arrangement in place to set out future care for the child/children, it's quite possible that they may go into care whilst decisions are being made. This process could take a number of weeks, at an awful time for both the children, and other family members.

Consideration 2 - Not only make sure that there's a suitable life policy in place. But also, in most cases, put it in Trust as it may assist any inheritance tax planning needs, along with ensuring a speedy release of funds to the trustees.

Not all protection policies should be written in Trust, so do take advice. The Financial Conduct Authority does not regulate Taxation, Trust advice or Will writing.



Time for... Home Improvements

With a degree of confidence returning to the economy you may feel more inclined to undertake renovations to your home.

» Creating more living space or improving what you have, not only makes your home more pleasant to live in, but could also increase its value for when you do choose to move.

Alternatively, you may decide to avoid the building disruption and expense, and merely secure planning permission ahead of putting the property on the market - as that may add value and could make your home a more attractive prospect for potential purchasers.

So what is one of the most beneficial changes you can make to a property?

Add living space!

You could increase the living space in your property by building into the loft, creating an extension, adding a conservatory or converting the garage.

According to a recent report by Nationwide, adding a bedroom and a bathroom through an extension or loft conversion may increase a property's value by over 20%.

A second bathroom also remains a favourite and the same research shows that creating an additional bathroom could add 5% to the value of an average house.

In general, finding space to add an extra bedroom to increase a 2-bed home into a 3-bed one adds about 10-12%, on average. Whilst turning a 3-bed into a 4-bed home adds around 9% to the value. *(Source: Nationwide, April 2014)*

Do your homework

In some cases, planning permission has been relaxed so it makes sense to talk to the local planning authority, an architect or builder to see what can and can't be done. And if you live in a listed building or a conservation area, then do establish your parameters in this respect too.

Compare prices

The proliferation of websites to tell you what's for sale; what they've sold for; or what might be achieved if it went on the market, will mean you can make a rough comparison within the local area and gauge if the extra bedroom, etc, really does add value.

Another consideration - be energy efficient

Increased use of measures such as cavity wall insulation and double glazing, for example, have helped to make homes more energy efficient. In fact, since 1996, the number of homes with double glazing has risen from 30% to 79%! *(Source: Nationwide, April 2014)*

How we can help

Once you've worked out your sums, we can identify suitable routes to help fund it, should you need to borrow money.

Remortgaging is one option if it's beneficial to change your existing deal, and that you're likely to meet the borrowing criteria.

Alternatively, if you do not require a level of funding that would make remortgaging a worthwhile option, or would not want to jeopardise your existing arrangements a **Secured Loan** may be a solution for you. This is designed for homeowners who can use part of the equity in their property to obtain a loan that would sit as a second charge on top of their mortgage, which may be with a different lender.

Like a mortgage, the repayments are over an agreed timeframe. Of course, you need to consider that the interest rate on a secured loan tends to be higher than an average mortgage one.

If this is of interest, why not get in touch and let us see if we can identify a suitable solution for you.

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

THINK CAREFULLY BEFORE SECURING OTHER DEBTS AGAINST YOUR HOME. YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE OR ANY OTHER DEBT SECURED ON IT.

Lifetime Mortgages account for the vast majority of all equity release plans. And the most popular form of Lifetime Mortgages is Drawdown...

(Source: Equity Release Council, Q2 2014 data)

Lifetime MORTGAGES

What is it?

A Lifetime Mortgage is similar in principle to a standard mortgage, with the main difference being that there are normally no monthly repayments to make and the loan (plus the monthly interest owed) is redeemed when you die, or move into long-term care.

What's the maximum I could raise?

It's largely dependent on the age of the youngest planholder and value of the property. As a rough guide there are differing percentages from aged 55 upwards. Broadly, it's 20% of the property value aged 60, 30% aged 70, 40% aged 80 and 50% aged 90+.

Take all the money at once, or when I need it?

You can do either. Instead of opting for the full lump-sum at the outset, drawdown allows you to take up to the agreed amount against the set time constraints.

Drawdown is becoming increasingly popular and around 60% of all lifetime plans are now set up this way. The effect of this approach is that it may enable you to stay within limits for means-tested benefits. It will also lessen the impact of the 'rolling-up' of the interest that's not being paid on the loan.

(Source: Equity Release Council, Q2, 2014 data)

However, do remember that the interest rate applicable when you drawdown further funds may be at a different rate. Additionally, do consider products that guarantee the drawdown facility, so that you'll know it won't be an issue whenever you come to act.

What is roll-up?

If you don't make monthly payments to pay off the interest, then the interest owed is added to the capital that you originally borrowed. To gauge the impact of 'roll-up', if the interest rate for the lifetime mortgage loan is 6%, for example, a £50,000 loan (with the added interest) would have doubled to around £100,000 after 12 years. That's partly why drawdown is popular, as there's no point having interest added to borrowings you don't need at that particular moment in time.

What if I want to cancel the plan?

In much the same way as a standard mortgage, there may be an Early Repayment Charge against certain timescales - the terms of which would vary across the providers.

■ **As this is a complex area, it's essential that you take advice, so do get in touch to find out more.**
■ **An Equity Release plan will reduce the value of your estate and as a result there may be no value left to pass on. Equity Release will not be suitable for everyone and may affect your entitlement to State benefits.**
■ **As Equity Release is a complex area only specially qualified advisers can give advice on these schemes.**

■ Typically we charge a fee of £295 is payable when you apply for an Equity Release product. In addition, a brokerage fee of up to 1.5% of the loan amount (subject to a minimum of £1,000) is payable on production of a satisfactory Equity Release product offer letter. For example, if you take out a loan of £100,000 you will need to pay £1,500. Any commission that we receive from the lender on draw down of funds will be offset against our brokerage fee. Please ask for a personal illustration.

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

Our typical fee for arranging a mortgage is £295 plus 0.5% of the mortgage amount (subject to a minimum of £750). Any commission that we receive from the lender will be set against our brokerage fee. Please ask for a personalised illustration.

■ The contents of this newsletter are believed to be correct at the date of publication (August 2014).

■ 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.

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