Spring 2014

Baneberry Finance

Mortgage & Protection news

The newsletter from Baneberry Finance Ltd

With so much happening in the marketplace, should you assess your borrowing needs?

Ready to ACT?

» We've recently had the introduction of two different Help to Buy schemes, the return of some higher Loan-to-Value (LTV) mortgages, rising house prices, declining availability of interest-only mortgages, and the ending of the Funding for Lending scheme to support residential mortgage lending. On a wider level the economy seems to be improving, with a growth figure of 2.4% predicted for 2014.*

*(Source: *Office for Budget Responsibility, December 2013)*

And forecasts for mortgage lending are up on 2013 too. The Council of Mortgage Lenders feels 2014 may come in at £195bn. This would be around 15% more than the estimated figure for 2013. Elsewhere, some industry experts believe it may go higher than this and could breach £200bn. Although, as impressive as that may be, it's worth considering that it would still be little more than half of the lending figure back in 2007.

So, whatever your current borrowing requirements may be, such as:

- Wanting your first home.
- Planning to move to another.
- Renovating the existing one.
- Sitting on a Standard Variable Rate (SVR).
- Or simply looking for a better mortgage deal - then do talk to us to find out more.

Triggers for change...

As part of the process, some of the elements below may have a bearing on when it's best for you to act (if at all), and how:

- Help to Buy

This is the initiative of the moment and there are two schemes (see page 2 to find out more). At the end of 2013, the longer established 'equity loan' one (in England, at least) had supported 20,000 households, with the recently launched UK-wide 'mortgage guarantee' scheme seeing over 6,000 applications by the same period. As impressive as these initial figures may be, you need to consider that **over 1,000,000 mortgage transactions** were processed in 2013. So whilst Help to Buy will appeal largely to first-time buyers - equally important will be the impact it's likely to have on the overall property market and the million or so looking to take out standard mortgage deals this year.

(Sources: www.gov.uk, Jan 2014 and Council of Mortgage Lenders)

- Bank of England

With a new governor, Mark Carney, in place there has been a decent flow of forward guidance on the housing market and concerns about any overheating in this sector.

The Bank base rate has, of course, sat at 0.5% since March 2009. And whilst a rise doesn't seem to be on the immediate horizon, we are now sitting around the

➔ (contd on back page)

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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.**

Help to BUY

Help to Buy is largely designed to deliver mortgages for those who may have previously been locked out of the market for the better mortgage deals due to unaffordable deposit requirements.

» The government views a healthy property sector as an important element of its economic plans and has two Help to Buy schemes. Whilst both will primarily appeal to first-time buyers - they are also open to existing homeowners.

One scheme has an 'equity loan' element to it and is purely for new-build properties (see the item to the right to find out more). The other scheme - which fully launched this January - provides a 'mortgage guarantee' and covers both new-build and existing properties.

Both schemes have already generated considerable borrower interest, with a decent number of lenders now on board.

There's also been a knock-on effect with some lenders offering attractive interest rate deals outside of the schemes against similar deposit contributions of 5-10%. So you may find that there could be a decent range of options for you (or family members) to consider.

Mortgage Guarantee scheme - the maths

From the borrower's perspective it won't be that different to getting a normal mortgage. You'll put down a deposit of at least 5% and then borrow up to 95% of the property's price from a mortgage lender. The government will then guarantee up to 15% of the original purchase price.

For example, if you provided a 5% deposit, the government would guarantee to repay your lender almost 15% of the purchase price if you defaulted (and the property was sold at a loss, where the full mortgage sum couldn't be repaid from the sale proceeds).

For the lender, this will mean that providing funds to people with small deposits will carry less risk. However, the lender will have to 'buy' the guarantee and the government is giving lenders the freedom to set their own interest rates as part of the scheme, so there are no guarantees you'll get an attractive rate. Hence the need to also consider options outside of Help to Buy.

Mortgage Guarantee scheme - some of the key pointers:

- The property must be offered for sale at £600,000 or less, and not be a second home.
- Your application can't be used in conjunction with any other publicly funded mortgage scheme.
- You need to meet certain criteria such as income verification and credit worthiness.
- It's on a repayment basis only.
- Like the 'equity loan' scheme, you won't be able to rent out the property.

Whilst this scheme is currently designed to be on offer for three years, you need to be aware that both the government and Bank of England are keen to ensure the housing marketplace doesn't overheat. So there's always the chance that there will be some changes along the way.

All the more reason why you should take advice when considering both schemes alongside any alternative options.

Equity Loan scheme

This scheme is open to both first-time buyers and home movers against new-build homes only, as it's also designed to get house builders building again.

There are different schemes on offer across the UK (with varying purchase price ceilings) - where broadly you need to contribute at least a 5% deposit, and the government will give you a loan for up to 20% of the purchase price. This means you could gain access to at least 75% loan-to-value mortgages to cover the rest.

Whilst the loan is a percentage of the property's value (not a set amount), there are favourable terms regarding the pay back of the loan.

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

Property portfolio

Will Help-to-Buy damage the Buy-to-Let market?

» The availability of better priced loans for homebuyers with a small deposit will no doubt shift some people away from renting and into homebuying. However, other factors will still remain in the mix.

First off, many of those 'potential' homebuyers might prefer to continue to rent for a whole host of reasons, and may also be deterred by the strict affordability and credit checks applicable to mortgage borrowing.

House building is another issue; there simply aren't enough new homes being built to meet the demand. It's a demand that's driven by elements such as a growing population and an increase in single occupancy.

Market enthusiasm

All of this may continue to fuel the rise in property prices, but will also deliver opportunities for the rental sector. A view that's endorsed by a recent survey of landlords, where 58% felt that tenant demand would grow in 2014, with just 10% thinking the converse. *(Source: LSL, January 2014)*

The buy-to-let lenders are also sending out positive signals with new (or returning) entrants and more innovative products on offer.

Even the Council of Mortgage Lenders recently acknowledged the size of the market by now providing buy-to-let figures on a monthly, rather than quarterly basis. It probably warrants the attention though, as this sector currently accounts for almost one in seven of all outstanding mortgage lending.

Take advice

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

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

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 issues. And, of course, you'll need to do the maths - such as the rental income vs. the cost of the loan, additional expenses and void periods.

As it can be a complex area, it's essential that you do take advice.

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.

Home Renovations

Did you know that there are alternative borrowing options out there - such as **Secured Loans?**

Perhaps you've had enough of treading water for the last few years and want to undertake some of the bigger tasks around the home. However, this may not require a level of funding that would make remortgaging a worthwhile option, or you may not want to jeopardise your existing arrangements. This is where a **secured loan** may be a solution for this, and perhaps other needs too.

Secured loans have made a bit of a comeback recently. The amount lent in 2013 was £493m, which equated to a sizeable annual growth of almost 45%! *(Source: Loans Warehouse, Secured Loan Index, Jan 2014)*

They are 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, so do get in touch to discuss your needs.

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.

The Financial Conduct Authority does not regulate Secured Loans.

Equity Release can sometimes be viewed as a product of last resort, but many also turn to it for positive reasons.

It's Your wealth!

Helping family and friends

Let's cover the issue of inheritance first. This has tended to be the Holy Grail, with the home being viewed as something the family would inherit.

The equity in your home may represent a sizeable amount of your overall capital - but there may also be savings and investments which, it's largely accepted, should be used to help fund the retirement years. But why exclude the home from the same thought process? Although, in this respect, it may make sense to consult with your family in order to manage their expectations.

With the home, it's possible that there's also an emotional attachment, even though it's likely that it would then need to be sold swiftly to help share out the value of the estate after meeting any applicable inheritance tax demands.

However, attitudes do seem to be changing from both the homeowner and the potential family members that will inherit. There's a desire to see funds used to benefit people whilst the 'giver' is still around. The most obvious route is supporting the grandchildren with education costs or deposits to help them get their foot onto the property ladder.

Home and Garden improvements

This would be viewed as another positive reason for using equity release, and any added value to the home may benefit those inheriting down the line, quite apart from the homeowner having a better environment to live in.

Assistance with regular bills, and paying off loans and credit cards

Worryingly, almost two million retired adults have less disposable income than the average weekly pocket money of an 11-year-old child (£8), once essential living costs are accounted for!

(Source: LV= State of Retirement report, June 2013)

So it's no wonder that helping to supplement their retirement income is still probably the biggest reason for opting for equity release. Even in this instance, it needn't be just for negative reasons, as many will use the extra funds to simply help enjoy a better lifestyle across the retirement years.

Clear the outstanding mortgage

This is a growing reason for considering equity release. For example, the average balance at maturity for an interest-only mortgage was £60,000 in 2012, but is expected to rise to around £110,000 by 2020 - with about 150,000 loans maturing each year across the current decade. In some cases, the borrower may not have the investments in place to fully repay the loan.

(Sources: Financial Services Authority, Retail Conduct Risk Outlook, March 2012, and Mortgage Market Review, October 2012)

Funding care costs

Not exactly a positive reason for raising funds, but could be an essential one - which may enable the homeowner to remain in their own home and receive daily visits. The alternative could be to possibly sell up and use those funds to cover care home costs - which could amount to circa £28,000 a year vs. around £13 an hour for home visits.

(Source: Equity Release Council, Long-term Care report, October 2013)

Treating yourself

Some homeowners may decide to raise funds for the trip of a lifetime, or the car they've always wanted.

Please get in touch to find out more.

■ 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.

■ These are Lifetime Mortgages and Home Reversion Plans.
To understand the features and risks, ask for a personalised illustration.

■ Lifetime Mortgages and Home Reversion Plans are the two main types of Equity Release.

■ 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.

CHECK YOUR Credit Score

Even though the marketplace has improved, lenders can still be picky about who they offer loans to - and your personal credit rating will have an impact on those decisions.

The role of a credit score is to try to predict your behaviour, which means that those who have a poor score may suffer, as may those that have no credit history at all.

And did you know that each time you apply for credit, this might be recorded on the files held by the credit reference agencies? This could possibly result in a downgraded rating for you, as the system may think (mistakenly) that you are desperate for funds - which could ultimately make the cost of borrowing higher for you.

As every lender has its own 'perfect customer' profile, a rejection from one isn't necessarily a rejection from all. By coming 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.

What makes up your credit score?

A number of aspects will be considered, such as not appearing on the electoral roll, defaulted payments, missed credit card payments, any County Court Judgements (CCJs) or bankruptcy, employment position, salary, marital status and age.

What you can do...

Aside from making sure you've not been a victim of identity fraud, it's always a good idea to keep tabs on your credit rating to ensure that your files are correct and up-to-date.

You can do this by contacting the following agencies and asking for a copy of your credit file (they may charge a small fee). If you find a mistake, you can ask for it to be corrected. Additionally, try to settle any debts, as that may help to improve your rating.

Experian - Tel: 0844 481 0800 - www.experian.co.uk
Equifax - Tel: 08000 560 560 - www.equifax.co.uk
Callcredit - Tel: 0845 366 0071 - www.callcredit.co.uk

Also, if relevant, write to the lender if they've flagged something that you feel is inaccurate and you can ask for a note to be added to your file explaining special circumstances as to why you may have failed to settle a particular debt.

So do get in touch with us if you have any questions or require assistance.

SIMPLE WAYS TO BOOST YOUR SCORE...

■ Don't make too many applications within a short time period.
■ Sort out any address errors and ensure you're on the electoral roll.
■ Shut down unused cards - as they could be a fraud risk.
■ Be consistent with your personal information across applications.
■ And lenders like to see a landline, rather than a mobile number on applications, as it conveys greater stability!

➔ **(contd from page 1)**

initial unemployment threshold of 7%, when the Bank said that it may consider raising the rate. However, the Bank has recently revised this guidance and stated instead that it would now look at a wider range of economic indicators to decide when to raise rates, and that any rise would be gradual.

(Source: Bank of England Inflation Report, February 2014)

- New mortgage market rules

From April 26th new rules will be introduced which, aside from a few exceptions, will ban non-advised sales. And whilst the lending criteria has been tightened up over recent years, the 'evidencing of income' and new 'affordability' rules will take this further, as borrowers would need to be stress-tested to see if they can also meet payments, should the interest rates rise. An upshot of this is that it may, in some cases, have an impact on the amount an individual can borrow from the end of April onwards.

- House prices

Whilst the average UK house price has not returned to the peak in 2007 of around £186,000, it did rise by 8.8% in the year to January 2014, and currently sits at almost £176,500. Of course, there still remains marked regional variations across the UK.

(Source: Nationwide House Prices, January 2014)

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: 020 3397 1664 Email: enquiries@baneberryfinance.com
Web: www.baneberryfinance.com

■ 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 (February 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.