

Mortgage & Protection news

The newsletter from Baneberry Finance Ltd

» 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.

Retirees will have greater control and access to their pension savings. Popular ways to spend that money include repaying debts, DIY, buy-to-let property and gifting money to children and grandchildren to help get a foot on the property ladder.

While many will use these pension freedoms to help fund their lifestyle initially, Equity Release mortgages are likely to become increasingly popular. New lenders are expected to enter this market in 2015 looking to fill the void left by tighter regulation of mortgages for those approaching retirement.

Decent deals on offer

Price competition amongst lenders has grown fiercer as high street banks face larger lending targets for 2015. Record low interest rates mean that if you are thinking about moving home, or remortgaging for home improvement, or to secure funding for a buy-to-let property, or simply after a mortgage for the first time, then now could be the time to review your situation.

That said, the strict lending rules remain, albeit the regulatory body, the Financial



Relax - leave it to us

Conduct Authority, feels that some lenders may have been over-zealous, in certain circumstances, when applying the new affordability criteria. So do take advice. While 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. 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, equity release, 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.**



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), the price war across the last quarter of 2014 is expected to continue into Q1 2015, as lenders fight for market share.

(Source: Bank of England, Credit Conditions Survey, Q4 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.

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.

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 October) 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 ten 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 Oct. 2014)

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.

EQUITY RELEASE may not be the most suitable option for everyone, so it's essential to seek professional advice.

Avoid confusion



Equity release is a topic that's increasingly covered in the media, so it's quite likely that you would have heard at least something about it as an option to help fund your retirement years, or perhaps as a way of supporting the needs of family members.

The increasing interest in raising equity from your home could be simply explained by looking at the size of the pension pot that someone may have at the end of their working life. On average, a pension fund of around £39,000 was placed in an annuity in the second quarter of last year, with half having a fund of less than £25,600. Position this against the equity that may sit in the home - an amount which could be substantially larger.

(Source: Association of British Insurers, Q2 2014 statistics)

Explore the options

Whilst it could prove to be the solution for you, raising money from your home is not something that should be undertaken without exploring the other options on offer. And that's why it's essential that you take advice - from the financial adviser, a solicitor, possibly an accountant, and perhaps even involve family members too.

Our role as a financial adviser means that we can handle much of this process, by liaising with the various parties, and being readily available to answer your questions.

Not all financial advisers are qualified to advise in this area, and those that can have had to secure additional qualifications, as the industry is quite rightly mindful of ensuring it delivers the most suitable advice to the potential planholder. The following are just a few examples of where we can provide support:

The issues and alternatives

In many cases, there may be better options out there for you. The most obvious ones are utilising existing savings and investments, or to downsize your current home, in order to raise funds. Or perhaps you could generate extra funds by taking in a lodger.

We would also need to consider if taking out an equity release plan affects any existing (or available) state benefits or local authority grants. If it does, you'll then need to weigh up the pros and cons of either route.

Additionally, we may need to establish the situation with any Wills and Trusts that may already be in place.

Impact upon your family

Whilst attitudes seem to be changing with regard to inheritance - with some children actually being the catalyst to get their parents to consider equity release - issues do still remain.

So it may make sense for us to explain the equity release process to family members too, and set out how it could result in less of an inheritance for them.

The balance here is that, in most cases, the planholder

does not have to pay back anything until such time the final planholder either dies or moves into long-term care - at which point the lender would recover the money owed from the sale of the property. So that's good news, as it's one less expense. And as we show below, there is also protection in place to ensure you do not pass on any debt.

Protection for you

The Equity Release Council (ER Council) is the industry trade body, of which its lender members represent over 90% of all equity release lending. And it has a number of rules in place to help safeguard the needs of borrowers, such as:

You will never lose your home

Even if the money owed on your loan eventually exceeds the value of your home, the planholder(s) will be allowed to remain in the property for life (or until the final planholder moves into long-term care), provided the property remains the main residence.

You can still move elsewhere

The freedom to move remains, without payment of any financial penalty. Although, you may need to repay part of a Lifetime Mortgage loan, if you move to a cheaper property.

No debt for the dependants

A 'no negative equity' guarantee exists, which means that whatever the amount builds up to over the lifetime of the plan (loan + the accumulated interest), there will be no subsequent debt for the beneficiaries of the estate.

■ 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.

BUY-to-LET

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 6500.* 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, 31 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.

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 (January 2015).

■ 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.

■ We cover mortgages, equity release, 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