Mortgage & Protection news

The newsletter from The Centre Court Partnership

The Centre Court Partnership
WEALTH MANAGEMENT | HOME FINANCE & PROTECTION

The road to Brexit

The current climate may be a time to assess both your borrowing and protection needs.

» The implications of Brexit will obviously affect our lives from now on. However, as it stands, we're still part of the EU, and that'll remain the case for the foreseeable future. What has swiftly changed is market sentiment, along with the political landscape.

There was an immediate impact on the UK stock market and the value of the pound (with the former recovering and the currency less so, at the time of writing).

It's also affected the structure of the government, and may have an impact on property prices, yet that doesn't mean we should avoid making decisions.

More secure climate

Unlike the crash of 2007/8, the economy is in far better shape to adapt to changes, and whilst the Bank of England views the immediate financial future as 'challenging', it has already taken steps to ease the capital requirement for the banks.

The upshot of this is that it immediately freed up £150bn for lending to both UK households and businesses, which may translate into delivering the mortgage, or remortgage deal that you're seeking. *(Source: Bank of England, Financial Stability Report, July 2016)*

Broadly, if the lenders continue to have the money and appetite to lend, then the fundamentals of the mortgage market still remain strong. Furthermore, we've now had a reduction in the Bank of England Bank Rate* which, alongside other measures, is designed to help provide a fresh economic stimulus for the overall UK economy - and might even deliver better mortgage deals for you. *(Source: *Bank of England, 4 August 2016)*

Your route forward

To make sense of all the developments in these changing times, it's essential that you **take professional advice.**

And why would you want to put your life on hold anyway, as there's much you may want to be getting on with, such as:

- Securing a better mortgage deal than your current one.
- Undertaking much-needed renovations to your current home.
- Moving up the property ladder (or perhaps even downsizing).
- Buying your first home, and taking advantage of the schemes on offer.
- Conversely, you may look at expanding your property portfolio, either through becoming a landlord, or simply want the holiday home you've always dreamed of.

Whatever happens (both politically and economically), the sizeable numbers that voted for both the 'leave' and 'remain' camps should hopefully ensure a measured approach going forward.

If you'd like to hear more about how we could assist with your borrowing needs, along with ways to financially 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.

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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 Centre Court Partnership is an appointed representative of Openwork Limited which is authorised and regulated by the Financial Conduct Authority.

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

Assisting your dreams

'Be fearful when others are greedy, and greedy when others are fearful'. *(Warren Buffett - one of the world's most successful investors)*

This quote is possibly opportune in the current climate, and whilst it's directed more at holding an investment portfolio, much of what you do with your own borrowing and protection requirements also relates to investing in your current and future needs.

So whilst you don't want to be reckless, you should consider the opportunities that may be out there for you.

One of these may be to **remortgage** onto a better deal than the one you're currently on. In short, you remain where you are, but simply try to find a deal that'll cost you less each month, or perhaps one that will generate additional funds to enable you to undertake key home improvements.

The good news is that there are still decent (and in some cases, improved) deals out there, particularly if you're currently sitting on your lender's Standard Variable Rate (SVR).

You may even decide to utilise some of the mortgage payment money you save to provide additional **protection** for yourself (and perhaps family too) in the way of life assurance, or cover against illness, injury, or job loss.

Alternatively, even though you may enjoy a lower rate of interest from a new deal, you could decide to maintain the level of payment, if possible, enabling you to **pay off the loan sooner than expected.**

Benefit of Advice

In short, there's simply a massive range of options on offer to meet both your borrowing and protection needs. So it makes sense to take advantage of calm, sensible and professional financial advice.

And that's before we even mention the raft of 'tighter' rules, which apply stricter 'evidencing of income' and 'affordability' measures to ensure that borrowers are stress-tested to see if they can not only meet current payments, but also be able to cope should the interest rate rise.

Even here, different lenders may interpret the rules in alternate ways, meaning that if you can't get the loan you need from one lender, the answer may not be the same elsewhere. Hence the benefit of securing advice from someone that is dealing in this marketplace day-in, day-out.

Hold your hand throughout

We are also aware that you may have time-pressed lives, so we can hold your hand throughout the process, and liaise with the various parties along the way.

We already help a whole range of clients, from those who are new to home ownership, have a home and may want to move up (or down) the property ladder, or simply want to stay put and seek out a better deal, or require further funds. We recognise that each situation is different and needs to be tailored accordingly.

To hear more, please get in touch. 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.

Protecting your Income

Only one in five of UK respondents to a global survey have Income Protection cover in the event of becoming too ill or disabled to work. Yet the same survey showed that a sizeable 42% have experienced income loss in their working lives due to serious illness.

(Source: Zurich survey, July 2016)

Whilst you may have life cover in place, how would you (or the family) cope if a wage earner was off work for a long period of time? You may think it won't happen to me, and that'll hopefully be true, but it does happen!

To give you a feel for how this may impact upon families, a couple of years back the 7Families charity-led initiative was set up to deliver financial support for a year to seven selected families. These are families who've lost their main income through a serious or long-term illness, or disability, and didn't have any financial support in place.

For them too, the unexpected was very much that. Along with assisting families that were facing financial meltdown, it provided an opportunity through real life situations to demonstrate the importance of families planning financially to help lessen the impact should the worst ever occur. You can find out more at: www.7families.co.uk

By checking out the website, and also completing its 'How Financially Invincible are you' test, you may then agree that: *'it's possibly far better to have cover in place and not need it, than to need it, but not have it'!* So do get in touch, and we can take you through the options.

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

Good Housekeeping

One area to experience an immediate impact from Brexit were the share values of housebuilding companies. We take a look at how that may affect the **First-Time Buyer,** along with some options on offer.

Brexit has added an extra dimension to two key elements of the property marketplace that are closely interlinked; **buy-to-let landlords/renters,** and **first-time buyers.**

Housebuilders (along with the banks) were one of the initial sectors to see their stock market price fall. This was swiftly followed by a number of investment businesses initially suspending trading in their 'property funds', as a result of an increase in redemption requests after the EU Referendum vote.

Of course, things may well settle down as the markets get a better feel for the way forward. On top of this, let's not forget that housebuilding remains a top priority for the government - with its aim to build one million new homes by 2020.

(Source: gov.uk announcement, October 2015)

Although some commentators are not that confident the government will hit this target, meaning buy-to-let landlords (who do have their own separate raft of tax issues to contend with), may still be quietly confident if rental demand rises, due to a slowdown in housebuilding, plus any reluctance to currently commit to property purchases due to the market climate.

Help-to-Buy schemes

However, the government also has in place various Help-to-Buy schemes that **largely target the first-time buyer.** It's this group that will obviously benefit if concerns over Brexit results in house price inflation either levelling off or perhaps falling.

So far, these schemes have enabled over 160,000 people to buy their own home, with 94% of all completions taking place outside London, and 80% of the take-up coming from first-time buyers.

(Source: gov.uk, Help-to-Buy, June 2016)

■ **Mortgage Guarantee scheme** (UK-wide and will currently run until 31 December 2016)

This works in a similar way to a normal mortgage, except the government can give lenders the option of providing a guarantee of up to 15% of the loan amount, alongside the borrower's deposit of at least 5%.

This mean that the borrower can benefit from the interest rates on better loan-to-value deals (ie 80% LTV). However, irrespective of the guarantee, they would still be responsible for paying back the full loan amount.

■ **Equity Loan scheme** (England & Wales, with similar schemes elsewhere in the UK)

In this scenario the government lends the borrower up to 20% (up to 40% for Greater London) of the cost of a newly built home, so in this instance, the borrower would only need a 5% cash deposit, and a 75% LTV mortgage to make up the rest. Again, this opens up access to the better rate deals.

The borrower won't be charged fees on the 'up to 20%' figure for the first five years of owning the home. The government would then get 20% of the future sale value.

■ **Shared Ownership scheme** (UK-wide)

If the borrower can't quite afford (or secure) the mortgage on a sizeable percentage of the home's value, then this scheme offers the chance to buy a share of the home (between 25%-75%) and pay rent on the remaining proportion. Then down the line, the borrower could purchase a bigger share of the property.

To conclude

This is just a brief outline of some of the schemes on offer (with the same or similar set-ups throughout the UK) and, of course, various terms and conditions would apply.

If interested, it shows that choices do exist largely, but not always exclusively, for the first-time buyer, and as part of that process we can help identify the most suitable mortgage loan for your needs.

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

WILL you do it for the KIDS?

DID YOU KNOW that a massive 58%* of all UK adults don't have a Will in place.

In which case, consider this situation: A family with young children, where both parents sadly perish in a car accident (and a Will or Guardianship arrangement isn't in place); the children are likely to be initially put into Care - irrespective of a loving family that may be around them! So, it's not just about money.

In general, not having a Will would mean that a person dies intestate. Whilst their spouse (or registered civil partner) will be the first person entitled to the estate, they may not inherit all of it. If a couple aren't married, then the situation could be even more problematic!

Also, without a Will the whole process is slowed down dramatically, often meaning that the family may face financial worries, at the same time as having to cope with the loss of a loved one.

*(Source: *Survey by unbiased.co.uk, October 2015)*

The Financial Conduct Authority does not regulate Will writing.

Will writing is not part of the Openwork offering and if we offer this service, it is offered in our own right. Openwork Limited accept no responsibility for this aspect of our business. This article is for general information purposes only.

CHECK YOUR Credit Score

Lenders can 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 future behaviour, which means that people who have a poor score may suffer, as can those who have no credit history at all.

Each time you apply for credit, this might be recorded on the files held by the credit reference agencies - Experian, Equifax and Callcredit.

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. As part of that process, we should also be able to limit the number of applications made - since too many could result in a lower score.

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.

Interestingly, being super squeaky clean may not always be to your advantage. Whilst the lender, credit card provider, etc, is keen to know they'll get paid, they may also take a view on the future profitability of a prospective client. So, ironically, some of the best clients may be those who are perpetually in debt, but never default, and always meet the minimum repayment. Might not be a target to aim for, but certainly a consideration!

TEN SIMPLE WAYS TO HELP BOOST YOUR SCORE...

1. Check your files annually or before any major application, and then afterwards, if rejected.
2. Ensure that you're on the electoral roll. And if you're not eligible to vote in the UK, then add proof of residency to your file.
3. Don't make too many applications within a short time period, as it may be interpreted as being desperate for funds.
4. Sort out any address errors, so that you have one consistent address on file.
5. Never miss or be late on any credit repayments, as it can have a disproportionate hit.
6. Shut down unused cards - as they could be a fraud risk, plus may show you've access to too much available credit.
7. Don't withdraw cash on credit cards in the UK - as this can be viewed as poor money management.
8. Be consistent with your information across applications.
9. Don't let your partner or housemate's score wreck yours!
10. If you're separated from your partner, then do ensure, where possible, you financially delink too.

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 each year to ensure 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. Since companies will use different agencies, it may make sense to check all three:

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

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

Callcredit - Tel: 0330 024 7574 - www.callcredit.co.uk

Also, if relevant, write to the lender if they have 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.

Do take a look at the ten tips on this page, and get in touch with us if you have any questions or require assistance.

The LANDLORD...

About one in six of all outstanding mortgages are for Buy-to-Let properties.

(Source: Council of Mortgage Lenders, end of 2015 figure)

» To some extent, this sector has become the victim of its own success, with both the government and regulatory bodies seeking to apply more control.

The government possibly sees it as a decent revenue source for its coffers. At the same time, the Bank of England views it as being a sector that's more likely to be cyclical in nature, which it feels could impact upon a measured recovery in the economy.

However, this was the view before Brexit and time will tell if some of the initiatives set out here are eventually amended. Additionally, landlords may even benefit from the existing climate due to a possible reduction in enthusiasm to build houses to meet the current demand.

Anyhow, for now the upshot is the following, along with what's set out in the panel below:

Stamp Duty changes - purchases of buy-to-let properties (and second homes) now attract an additional 3% stamp duty above the current banded levels.

TAXING TIMES FOR LANDLORDS

Higher tax burdens for Buy-to-Let landlords are being phased in from April 2017 - with the full impact being felt by 2020. Currently, landlords are able to offset their mortgage interest and other finance costs against the property income, thereby reducing their tax liability. Those on higher tax rates are able to receive relief at their marginal rates of 40% or 45%.

By 2020 the government's plan is to restrict relief to the basic rate of income tax (20%) for all individual landlords.

Some basic rate taxpayers may also be hit, as the change might push them into the higher rate tax bracket.

Example scenario

For a 40% taxpayer whose buy-to-let property earns £20,000 a year, against the annual cost of £13,000 for an interest-only mortgage, the current tax paid will be 40% of £7,000. A **tax bill of £2,800.**

Assuming the same scenario in 2020, then it's 40% of £20,000, less 20% of £13,000, resulting in a **tax bill of £5,400.**

Capital Gains Tax (CGT) - the reduction in CGT from 6 April 2016 did not extend to buy-to-lets (or second homes).

Stricter affordability tests - plans are also afoot to tighten up affordability and stress-testing against interest rate rises for landlords who want to borrow money.

What it means

It's vital that both existing and potential landlords do their homework. For example, think about remortgaging onto a better deal, or look for a good deal if just starting up. It also makes sense to liaise with your accountant, as there may be various routes to consider - such as Limited Company status.

Furthermore, if you feel the market can wear it, then there may be the option to raise rents, to help make up any possible shortfall.

Additionally, landlords will recognise that there continues to be a demand from those that struggle (or are unable) to raise a deposit to finance a property purchase.

So it will be interesting to see if the current initiatives (or even Brexit) put any dent in the projections that the private rented sector will grow from its current figure of around 20% of all homes, to about 35% by 2032.

(Source: Intermediary Mortgage Lenders Association, May 2014 report)

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.

Family Income Benefit - protection for the family

In spite of healthier lifestyles and improving medical know-how, on average, around 47 adults, aged 18-44, die every day. *(Source: Office for National Statistics, 2014 UK figures, released December 2015)*

» If the unthinkable happened and the breadwinner died, would the family be able to cope financially, quite apart from the emotional turmoil? It's possible that there may be life cover in place to help pay off the mortgage. But what if the partner left behind has children and needs to provide for everyday items such as food, clothes, utility bills, childcare, or other expenses like holidays and birthdays?

If you think this may not add up to much, then consider the findings from an LV= survey that looked at the cost of raising a child to the age of 21. This stands at almost £232,000 - equating to more than £200 per week! It's a pretty sobering figure should an income stream end due to an untimely death.

(Source: LV=, Cost of a Child report, February 2016)

Family Income Benefit

If you're a parent with children, then it may make sense to have in place a specific plan to help meet the needs of the kids, in addition to any general life cover you may have.

In which case, **Family Income Benefit** may be one of the better value protection plans on offer. Rather than delivering a lump sum should you die, it provides a regular, tax-free, monthly (or annual) payment for the dependants - from the time of the claim to the end of the plan term.

That's why it's well-suited to those with young families, as the idea is that it should be arranged to pay out until the children have grown up, so it's often taken out over a 10 to 20-year term, or whatever is appropriate in your circumstances. Although, please note that this type of policy has no cash-in value at any stage.

How it works

Say you took out a 20-year term, which was set up to pay out £20,000 a year and it was claimed against after one year, then the family would receive £20,000 a year for the next 19 years, equating to a total payout of £380,000 (if there was no index-linking).

However, if for the same plan, there wasn't a claim until 18 years into the policy term, the total payout would be £40,000. If, fortunately, there was no claim at all within the 20-year period, then the policy simply runs the whole term without any payout.

Consequently, the resulting lower premium cost (because the potential payout decreases the further through the policy you get), could make the difference between you being able to afford the insurance or not.

Why not talk to us to find out more.

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

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■ The contents of this newsletter are believed to be correct at the date of publication (August 2016).

■ 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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