Winter 2017

Mortgage & Protection news

The newsletter from The Centre Court Partnership

The Centre Court Partnership

WEALTH MANAGEMENT | HOME FINANCE & PROTECTION

Time for Advice?

The last year or so has delivered some fairly seismic changes to the normal order of things.

» In the midst of all this, however, there continues to be some excellent mortgage deals on offer, should you be looking to:

- get onto the property ladder.
- move to a new home.
- raise some extra funds to undertake renovations to your existing property.
- secure a better interest rate on your mortgage deal.
- expand or get into the buy-to-let arena.

Current climate

But let's not kid ourselves that decisions are being taken in a normal market environment. Not when we've seen Brexit occurring, a Trump Presidency, elections coming up in France and Germany, and a more emboldened Russia. Additionally, the Pound has fluctuated, UK inflation is on an upward cycle and growth in the economy is slowing.

This has, and will continue to have an impact on the financial markets and that, in turn, may affect the property sector, where annual UK house price growth has slowed slightly to 4.4% (albeit with regional variations). *(Source: Nationwide House Prices, Nov. 2016)*

The way forward

While none of us really knows how it will all pan out, we - as professional financial advisers - operate daily within the mortgage and protection marketplace; so are well placed to have an excellent insight into what may be the best way forward to help meet your own particular needs.

It makes sense, of course, to suggest a degree of caution - and that is why professional advice is important. However, it's also worth noting that much has been done by the government and the Bank of England (BoE) in recent times to help ensure the country is in a better position to sustain any future shocks to the economy.

BoE initiatives such as the drop in the Bank Rate, £435bn of Quantitive Easing, and the Term Funding Scheme, may help to keep down the costs for those that have, or are seeking to take advantage of the current deals for mortgage loans.

At the same time, we'll understandably be keeping a close eye on how the Brexit process will develop and any impact it may have on your borrowing options.

Support for YOU

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

In addition to your borrowing needs, we can also discuss specific insurance products, that may help protect you (and your family). So please do get in touch.

And reassuringly, in a 2016 report, 81.7% of mortgages now go through intermediaries (such as us), a sizeable jump against 56.3% back in 2014 - a pleasing endorsement.

(Source: IRESS, Mortgage Efficiency Survey, October 2016)

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

Some Buy-to-Let mortgages are not regulated by the Financial Conduct Authority.

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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.

Navigating choppy waters...

With all the developments within the **Buy-to-Let** marketplace, it's vital that you take advice.

» Despite the many challenges, Buy-to-Let remains a sizeable part of the mortgage lending marketplace, and the rental sector is likely to continue to be fuelled by demand (such as, not enough homes being built and the issues renters face in pulling together the deposit required to get onto the property buying ladder).

The upshot of this is that landlords are seeing decent rental returns, and are benefiting from some of the excellent buy-to-let mortgage deals out there. *(Source: Mortgage Brain, November 2016)*

However, they will need to adapt and evolve as market and economic conditions change, and it's vital that landlords take professional advice. From us, as well as other professions, such as their accountant - particularly if they want to assess if opting for a Limited Company status may now be a better route going forward for their portfolio.

The key impacts

The government sees this sector as a decent revenue source, and the Bank of England feels that it needs to be controlled so that it's not so sizeable that it could have an adverse effect on the overall property sector. The latest initiative, in this respect, relates to the stricter affordability stress test rules (see panel below), and this needs to be considered alongside other developments that have occurred in recent times, such as:

Tax changes - 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.

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

STRICTER RULES FOR BUY-TO-LET

From 1 January 2017 new stress tests and affordability checks will need to be in place, with the remainder of the new rules to be implemented by 30 September 2017.

What this means is that unless the initial mortgage rate is fixed for at least five years, lenders must take account of possible interest increases over a five-year period using a minimum stress test interest rate of 5.5% for new loans.

Alongside this, the Prudential Regulation Authority (PRA) has also stipulated a minimum interest coverage ratio of 125% - albeit it seems many lenders are already applying 145%.

Another rule is that from September 2017, Portfolio landlords (those that have four or more mortgaged properties, as defined by the PRA) must have a specialist underwriting approach applied, as lending to this group is viewed as being inherently more complex.

What it means

Of course, Brexit, and other economic impacts may ultimately influence current and planned regulatory controls. But, in the meantime, it's vital that both existing and potential landlords do their homework. For example, think about remortgaging onto a better deal, or look for the most suitable deal if just starting up.

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.

Plenty may want to Remortgage

Residential Mortgage Borrowing by type of deal
(Source: Council of Mortgage Lenders, August 2016)

If borrowing by Landlords slows, then the lenders will be keen to look to other sectors to help make up the shortfall.

This will be even more pronounced when you then consider that gross mortgage lending in 2016 is expected to sit at £246bn (almost 12% up on 2015), and rise slightly to £248bn in 2017.

In order to hit that level of lending, the **remortgage** market would be an obvious target. And it is one t... growth over t... 22% up by ...

(Sources: Coun... December 2016; r...

Remortgagin... more suitable deal ... currently on. In short, you ... you are, but simply try to find a mo... 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. *(Source: Mortgage Brain, October 2016)*

On Fixed or Tracker deals

Of the 9.3m residential mortgage deals in play (see chart above, which excludes buy-to-let), about 5m are currently sitting on either Fixed or Tracker rates.

In some of these instances, the best option may simply be to remain as is, but it would be sensible to have the conversation to make sure you do have the right deal to meet your **current** needs. Particularly, if you have decided that now's the time to undertake some of the more major renovations to your home that you've put off for the last couple of years - and require some extra funding to help make it happen. In which case, remortgaging could be one of the options to consider.

On a Standard Variable Rate

Another sizeable figure is that 2.2m are ... their lender's ... ave... could possibly be savin... remortgaged onto one of the current deals.

*(Source: *which.co.uk, November 2016)*

Benefit of Professional Advice

Of course, in some cases the borrower may feel that they won't qualify for a remortgage deal. This could be due to a change in circumstances, concern about the tighter affordability criteria, currently sitting on an interest-only deal, or needing an arrangement that may run into their retirement years.

But, let's not forget that many of those on SVRs, for example, may also be long-term borrowers who have benefited from the growth in house prices, meaning they're an appealing audience for lenders, and possibly qualify for the better loan-to-value deals.

Additionally, every lender doesn't work to the same criteria, and that's why it's in your interest to have a conversation with us, as you might be pleasantly surprised.

You'd also benefit from the fact that 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, seek buy-to-let deals, or (as we're discussing here) simply want to stay put and identify a better deal and/or require further funds.

As part of that process we would run through the 'tighter' rules, which now apply to ensure that borrowers are stress-tested to see if they can not only meet current payments, but are also be able to cope should the interest rate rise.

To hear more, please get in touch.

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

...tgage ...ulator

...work for you?

...nthly payments for a mortgage per £1,000 borrowed over 25 years

Interest rate %	Interest-only* £	Repayment £
0.25	0.21	3.44
0.50	0.42	3.55
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

Here's how to use the mortgage payments calculator: A £100,000 mortgage over 25 years, charged at a 2% interest rate would cost 100 x £4.24 (for Repayment) = £424 per month.

* 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.

Could you MANAGE?

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

We go off and insure our cars, homes, mobiles, and pets but do we think enough about protecting a key asset(s) - a wage earner - and what would happen if this income stream dried up, or was reduced markedly?

Of course, 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 only for a short period. As for the former - the protection industry is awash with sobering research on the numbers that have faced serious illness, injury, or an early death (see some facts in the panel below).

Yet, even at the basic level of protection needs, half of the people in the UK with a mortgage have no life cover in place! This means that they are leaving themselves and their families financially exposed should the worst happen. The same research also shows that more than two-fifths of mortgage holders couldn't live on the, possibly, resulting 'single ... turn to dipping into their savi... would only last for a few m...

Start somewhere

So, it makes sense to ensure that li... the mortgage should the unthinkable ha... help cover immediate living costs). There are nu... consider, but the most basic is Term Assurance, where you c... the amount you want to be insured for and the period for which you require cover. If you die within the term, the policy pays out. Should you not die in this period, then the policy won't pay out and the premiums you've paid are not returned to you.

There are two main types to consider - level and decreasing-term insurance. As the names suggest, with level-term the amount of cover remains the same, but with a decreasing-term policy, the level of cover decreases over the policy period - possibly to cover a debt that reduces over time, such as a repayment mortgage. Premiums are usually noticeably cheaper for the latter, albeit you may decide that maintaining the constant lump sum level of the former may be a better option for you.

Even if you don't have a mortgage, you'll probably still have major financial responsibilities (rent payments?), so it would also be wise to consider having life and other protection cover in place.

Make sure you take advice

... are more complex protection products to consider ...ch as facing a serious illness, or being ... to illness or injury - it makes ...ample, once you start ...tions, like *'single* ... get in touch

...**nditions and exclusions** ...

IT MAKES YOU THINK...

Leaving loved ones behind to pick up the pieces.

- **On average, around 120 adults, aged 18-55, die every day.** *(Source: Office for National Statistics, 2014 UK figures, December 2015)*

Will the income stream be hit, whilst the wage earner recovers?

- **In the 1960s more than 7 out of 10 heart attacks in the UK were fatal. Today at least 7 out of 10 people survive.** *(Source: British Heart Foundation, December 2016)*
- **Every two minutes someone in the UK is diagnosed with cancer.** *(Source: Cancer Research UK, 2014 research)*
- **One in 10 will face a period of sickness absence off work of more than six months.** *(Source: Demos survey, April 2013)*

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■ **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: 01372 747 799 Email: david@thecentrecourt.com Web: www.thecentrecourt.com**