

# the mortgage

The mortgage bulletin from mortgageenquiry.co.uk

## Opportunities ahead

The general view is that it's getting better out there.

» The last year or so has been a tough one for many. Although, for a sizeable number - who are in employment and enjoying lower interest rates on their mortgage loan - they may feel that it's left more money in their pocket than usual.

Much has been done though, to try to improve the financial climate. According to the National Audit Office, the government's response to the crisis shows that the purchases of shares by the public sector, together with offers of guarantees, insurance and loans made to banks has reached £850bn! (that's around £33,000 per household!!). Albeit they do expect about 95% of this amount to eventually be returned to the government's coffers.

(Source: National Audit Office, December 2009)

### Improving LTVs

Across the last year or so, mortgages have not been as easily accessible as they have been in the past due to less products being available, removal of the higher Loan-to-Values (LTVs) and a more stringent lending criteria.

However, in recent times, there have been improvements, with more mortgage products coming back to the market, and an increasing number with higher LTVs - opening up the opportunity for borrowing to a wider range of people, including first-time buyers. (Source: Moneyfacts, January 2010)

House prices too, have seen a recovery of sorts, with 2009 actually ending up 5.9% above 2008 - something that most commentators did not expect at the start of 2009. (Source: Nationwide, December 2009)

### Rising interest rate?

With this state of flux, it makes sense to take advice to see how you can meet your borrowing needs in 2010. In some cases, the best option may be to stay with your

existing mortgage deal, but you must be mindful that at some stage the Base Rate may start going up. And when that happens the lenders are likely to rapidly reprice their deals. To possibly avoid losing out, this may require you to anticipate when a rise could occur, in order to secure a fixed or variable deal that best suits your needs.

Of course, the general view is that interest rates may not move too much in 2010, but that ignores the possible effect of quantitative easing (QE) on the economy. As at 14 January 2010, the Bank of England has pumped around £195bn into the economy as part of their QE programme. QE is designed to help kick-start the economy, but as it's an untested science,

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

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■ Our typical fee for arranging your mortgage is £295, however dependant on your circumstances we may charge up to £495 for mortgage advice, the precise amount will depend on your circumstances but a typical fee is £295.

If you have sufficient equity in your property and can meet the income criteria, then the following may be a route for you.

**1. Raise some capital**

**Remortgaging** may be a solution if you need money to improve or renovate your home. Or maybe you need to fund the purchase of a holiday home, the cost of a wedding or to pay ongoing school fees.

If you only require a small amount, a **Secured Loan** may be a better option. As remortgaging can incur extra costs, which may not be cost-effective for a smaller sum. But remember that either route means using your home as collateral, so don't take on more debt than you can service.

**2. Tidy up your finances**

If you have built up your balances on credit and storecards, you may be able to reduce your overall debt burden by moving the monies owed into one mortgage, since mortgages may offer the most competitive interest rates. But you need to check whether this will be cost-effective for you, as placing your debts into a mortgage may mean that you end up paying more over the entire term than you would with your existing debt.

**3. Find a more suitable mortgage deal**

You may want to consider an alternative mortgage deal, as you feel there may be better offers out there for you. Or maybe, you're coming towards the end of your existing loan offer period, and want to check out other options in light of any possible interest rate rises.

**If you need some financial spring cleaning, do give us a call.**

**You may have to pay an early repayment charge to your existing lender if you remortgage. The Financial Services Authority does not regulate Secured Loans. 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.**



# Spring Clean your finances



Someone on average earnings in 2009 could afford the average first-time buyer property in 39% of local authority districts, against just 6% in 2007. *(Source: Halifax, 2009 First-Time Buyer Review, released January 2010)*

## My first home

Here are some options for first-time buyers

**The Bank of Mum & Dad**

Many first-time buyers receive help from their parents. At the most basic level, parents could 'gift' money to the first-time buyer. Alternatively, they could set up a 'family' offset mortgage, where parents can put their savings against their child's mortgage payments, thereby reducing the monthly payment - whilst still having access to their cash.

Another route would be to take out a 'Guarantor' mortgage. This involves taking the parents' income into account when deciding how much to lend. But there are risks, for example, if the child

stopped paying the mortgage, the parent(s) - as guarantor - would be liable for the payments and their own home may be at risk, if it's been used as security against the loan.

**Shared ownership**

Subject to certain eligibility criteria, there are now a number of schemes out there where a first-time buyer may be able to purchase a proportion of a home - broadly 25-75%. The developer or the housing association that manages it will own the rest.

The first-time buyer benefits from generally requiring little or no deposit, and has a smaller mortgage to initially fund. Added to this, they'll normally also

pay rent on the percentage of the property they don't own. The objective is that the first-time buyer can increase their share in the property over time, albeit generally at the prevalent market value.

Rules vary on each scheme, so do make sure it's suitable and affordable for your own situation.

**Share with others**

If you can find like-minded friends or siblings, and get the ground (and exit) rules agreed at the outset, this too may be an option to help get you onto the property ladder.

**These options may deliver an excellent solution for getting onto the property ladder - but all of them may raise complex issues - so do contact us first.**

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

# Protect the Family...

Life is complicated enough in the current climate, if you're healthy and have a regular income - imagine what it might be like if you 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 - and it might not be as costly as you may think. There are various types of insurance cover that can meet some, or all, of those needs.

One option may be **Family Income Benefit (FIB)**. Whilst there may be some life cover in place - that's sufficient to pay off the mortgage - what about providing for everyday items such as food, clothing, utility bills and other expenses?

Rather than providing a lump sum payout, FIB provides a regular, tax-free, monthly (or annual) income - from the time of the claim to the end of the plan term. Which is why it can often cost less than life insurance - as you may, for example, only be

claiming an income for the remaining 5 years of a 20 year term.

## A helping hand

This product can be particularly useful if you have young children and want to ensure that there's a regular income until they've grown up.



And if you want the benefit to increase each year, you can arrange for your policy to be index-linked, so that your monthly or annual income rises in line with inflation.

Some insurance companies also provide FIB policies which will pay a monthly income in the event that the assured suffers a Critical Illness, rather than on their death.

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

## Can you afford protection cover?

You might feel you're already stretched to the limit, so can you find the money to pay for extra protection?

Well, it may be easier than you think. Take all those little items we take for granted, like the odd drink or magazine - you'll be surprised to find how quickly it adds up.

TREATS	£ Cost/unit (estimated)
Soft drink	.60
Snack	1.00
Magazine	1.95
Coffee	2.30
Pint of beer or lager	2.80
Glass of wine	3.00
Taxi	5.00
Cigarettes (pack of 20)	5.50
Take-away meal	7.00

If you cut out just one unit each week of the above items, then you could save around £125 across a month. And, in most cases, that'll be more than you need to cover the cost of your protection policy.

We don't expect you to give up all of life's little luxuries. However, you can see that just by keeping an eye on your spending, you could afford to set aside a little extra to improve your financial security.

## IT'S CRITICAL!

If you're one of the 85%\*, then what happens if you are too ill to work? Would you have enough savings to continue paying the mortgage, and all the costs of running a home?

Of course, if you're employed, you may have the buffer of 3-6 months' disability

\*There's a good chance that at some stage in our life, we may face a critical illness such as a heart attack, stroke or cancer. Yet only 15% of us are protected against this possibility.

(Source: Mintel, Critical Illness Cover UK, February 2009)

cover as an employee benefit. After that, you would have to fall back on State benefits of limited value. And you are even more vulnerable if you are self-employed.

If the prospect of facing a serious illness concerns you, then you may wish to consider taking out some form of **Critical Illness cover**.

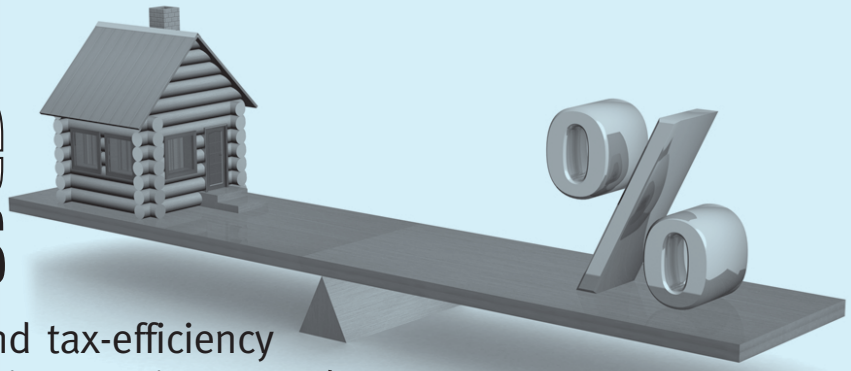
This cover is designed to pay you a lump sum if you are diagnosed with a specified life threatening illness or condition such as a stroke, heart disease or certain types of cancer, and you survive (generally) 30 days from diagnosis.

The actual premiums you would pay are obviously calculated against factors such as age, health, level of cover and medical history - and you must be honest when you complete the forms.

**The policies can be complicated and may vary widely with regard to the illnesses covered, so do call us if you would like to find out more.**

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

# Balance YOUR FINANCES



Offset Mortgages offer flexibility and tax-efficiency for those with savings and fluctuating earnings. And, an opportunity to pay off your mortgage ahead of time.

WITH AN OFFSET MORTGAGE, you pool your savings and mortgage with your lender and your savings are then 'offset' against the mortgage capital.

So if your mortgage is, say, £200,000, but you have £30,000 in a savings account with your lender, you will only pay interest on £170,000, thereby reducing the amount of interest you have to pay each month.

In other words, every £1 you have in your savings account is £1 less debt you have to pay interest on.

## Why it makes sense

As savings are normally taxed at source at 20% (with, normally, a further 20% liability if you are a higher rate taxpayer), the net return from savings is significantly less in real terms, particularly if you then take into account inflation.

But, by opting to not earn interest on your savings and, instead, offset them against your mortgage, they are effectively working for you at the same rate of interest as your mortgage.

In addition, because offset mortgage lenders calculate interest daily, every pound on deposit works hard to reduce the cost of borrowing.

And the beauty is that you can have access to your savings, if wanted. Although, you would need to put those savings within an account provided by the lender - and, understandably, not earn interest on this money, whilst it's linked to the outstanding mortgage amount.

## Payment flexibility

Another advantage of offset mortgages is that they give you the flexibility to overpay (see chart below), underpay or take payment holidays, providing you have made sufficient overpayments previously to cover this.

So, people with fluctuating earnings, commissions, bonuses, or who work freelance and have to set aside a large lump sum to pay the taxman, may want to put this money to good use via an offset.

Of course, offset mortgages are not for everyone. And, you need to ensure that the maths stacks up, by assessing the level of savings you have and balance that against the interest rate offered, compared to what may be on offer to you via non-offset products.

**As this may raise complex issues, do get in touch to find out more.**

How much could I save making overpayments?		
£ Monthly overpayments	Mortgage term	Total £ cost
0	30yrs	162,764
50	25yrs 2mths	147,664
100	21yrs 8mths	136,764
150	19yrs 1mth	128,414

(Source: Woolwich Mortgages from Barclays, January 2010)  
Figures assume a £100,000 repayment mortgage, 30-year term, 3.49% mortgage interest rate.  
The overall cost for comparison is 3.6% APR

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nobody really knows how this may impact upon inflation. If too much QE has already been applied and inflation starts to rise, then the Base Rate may need to go up to control it.

## Recession boredom

There's a growing feeling that many people are 'bored' with the recession and having to put their lives on hold. And with the oncoming Spring, they may decide that now's the time to act - whether that's to move home, renovate their existing place, or to simply tidy up their finances, through remortgaging.

**■ 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: 01580 243293 Email: info@mortgageenquiry.co.uk  
Web: www.mortgageenquiry.co.uk**

And with the continuing stringent lending criteria (particularly for the self-employed and contract workers), it's important that you also protect your 'credit rating', while you consider the most suitable deal for your needs.

Finally, if you've been hit hard by the economic climate, then it's important to avoid burying your head in the sand. Do inform your lender, should you be facing problems and talk to us as well.

**In fact, whatever your financial position, do contact us to see how we could help you move forward on your own specific needs.**

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■ The contents of this newsletter are believed to be correct at the date of publication (January 2010).

■ Every care is taken that the information in *The Mortgage* newsletter 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.