

Mortgage & Protection news

The newsletter from Cogent Financial Planning Ltd

With the excellent deals on offer, is now a good time for you to assess your borrowing needs?

» If you need any convincing that we're in a low interest rate environment, let's put the facts into perspective. Stepping back a decade or so to the economic crash in 2007/8, the Bank of England Base Rate was as high 5.75%. Going even further back it was almost at 15% in 1989! Imagine funding mortgage payments at 15%+.

Borrowing environment

With regard to the current climate, the Bank of England regularly points out that any increase in the Base Rate would be at a gradual pace and to a limited extent. That said, there are no guarantees that the decent deals currently out there will not move, at some point, in an adverse direction.

Where we can help

Undoubtedly, with the complexity of the mortgage (and wider borrowing) marketplace, along with the extensive range of protection products on offer, it makes sense to take advice. In fact, research shows that around 80% of all mortgages, for example, go through intermediaries (such as us).

(Source: iress, Mortgage Efficiency Survey, September 2017)



It's
GOOD TO TALK

Meeting your funding needs

Should you want to take action, we would seek to find a solution for whatever borrowing needs you may have, such as:

- Getting onto the property ladder.
- Moving to a new home.
- Seeking extra funds to undertake renovations to your existing property.
- Securing a better interest rate than your current mortgage deal.
- Looking for a solution as you're coming towards the end of your deal period, or have already gone beyond it, and now sit on a possibly more expensive Standard Variable Rate (SVR).
- Expanding or getting into the buy-to-let arena.

Some issues to consider

UK house prices continue to rise slowly (albeit with regional variations). In June 2018, there was a 2.0% annual increase

across the UK. *(Source: Nationwide, June 2018)*

The government is also committed to increasing the number of **new homes** that are built each year. In many cases this will assist **first-time buyers**, who continue to benefit from various government initiatives.

Inflation, which does have an impact on any Base Rate rise, currently sits at 2.4%, just above the 2% Bank of England target.

(Source: Office for National Statistics, June 2018 release)

Whilst a **strict lending requirement** remains in place, we operate in this marketplace daily, and consequently have a good understanding of what differing lenders are looking for. Hopefully, this means we're more likely to find a solution for your needs.

Please get in touch to hear more.

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**.

■ Cogent Financial Planning Ltd is authorised and regulated by the Financial Conduct Authority.

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



taxis, and snacks. By possibly cutting out a few items each month you may swiftly find the money to help fund a protection policy that puts your mind at rest.

(Source: Scottish Widows, January 2018)

Only 2.2% are not paid out

Another concern for many is the belief that many claims aren't met. To counter this myth, the insurance industry releases its annual figures. Across the board, 97.8% of all claims were paid out in 2017, amounting to an average of £13.9m a day! We've also shown below how this pans out against the three main sectors for protection.

*(Source: *Association of British Insurers, May 2018 release)*

Do take advice

It really makes sense to take advice, as there are so many elements to consider, quite apart from your own issues regarding age, health, lifestyle, extent of cover required, individual or joint policy, indexing for inflation, medical disclosures, and so on.

Also it's not just a price consideration once we identify a suitable route for you, as some insurers are increasingly innovative and provide a range of value-added services which could be of interest.

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

We insure our cars, homes, mobiles and pets, but are we doing enough to protect the main wage earner(s), and the income stream(s) they provide?

» Possibly not, when you consider that only 35% of all adults have a **Life Cover** policy. Even amongst those surveyed who have a mortgage it only increases to 60%, meaning that 4 out of every 10 homeowners, with a mortgage, don't have life cover in place! *(Source: Royal London, May 2018)*

Yet imagine the emotional and financial implications for those left behind, if the main wage earner were to die. Most will feel that this won't happen to them (or their family members), but it does. For example, each day **around 125 UK adults, aged 18-55 die.**

(Source: Office for National Statistics, 2016 data, July 2017)

What about facing a serious illness (and surviving), or being off work for a lengthy period? The *Royal London* research shows that even less look to protect themselves against those possibilities. Just 12% of all adults have **Critical Illness** cover, and only 9% have **Income Protection**, designed to cover those off work for a lengthy period due to illness or injury.

Cost implications

We understand that there are probably plenty of demands on your finances, and also recognise that it's difficult to contemplate facing an untimely death or ill health. But imagine if the worst did occur, then surely it's better to:

Have something in place and hopefully not need it, than to need something and unfortunately not have it.

Some may still feel that it's not viable financially, but let's have a conversation about this. In fact, you might be pleasantly surprised with what's on offer.

Of course, you want to enjoy the various treats your income can deliver, but do consider that the average Brit spends £124 a month on little luxuries such as takeaways,

Life Cover
 ■ 99.5% of all claims paid out
 ■ Average payout of £78,323 (term); £4,511 (whole of life)*

Income Protection
 ■ 87.2% of all claims paid out
 ■ Average payout over 166 weeks of £33,700 for individual schemes*

Critical Illness
 ■ 92.2% of all claims paid out
 ■ Average payout of £73,085*

Paying the **MORTGAGE** or the **RENT**

Whilst saving for the initial deposit is still a big stumbling block for many, recent research shows that - across the whole of the UK - meeting the cost of a mortgage on your own home is cheaper than renting in the same region.

» On average, **First-Time Buyers** could save a sizeable £2,268 a year once they step onto the property ladder, compared to renting, according to research from Santander UK.

This applies to all regions of the UK, albeit there are marked differences. Londoners, for example, could enjoy the biggest annual savings between mortgage and rental costs at £3,468.

At the other end of the scale the smallest differential is in the East of

England, where the saving sits at £516 annually. *(Source: Santander UK, June 2018)*

Whilst this shows that the first-time buyer might be under less financial pressure than when they were renting, there is still the issue of saving up for a deposit. According to Nationwide, it may take around 8-10 years to personally save for a 20% deposit.

(Source: Nationwide, December 2017 report)

Fortunately, there are a number of government schemes and lender products

that enable the first-time buyer to get access to a mortgage with just a 5% deposit. Although, applying the Nationwide calculations that may still take a couple of years to save up for.

Please talk to us to see if we can help you (or a family member) take that first step onto the property-owning ladder.

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

Looking to Borrow?

There are a multitude of options to consider when looking to take out either a mortgage or to remortgage. We set out below some of the key issues...

Fixed or Tracker deals

With regard to the total amount of outstanding residential mortgage borrowing, **fixed rate** deals account for over a half (see box right). In recent times it really has been the product of choice, accounting for a massive 90.5% of all new loans taken out in Q1 2018. (Source: Bank of England, June 2018 release)

The current popularity of fixed rates is partly influenced by concerns over future rate rises, and that they provide the peace of mind of knowing the interest rate will remain the same across the deal period.

Additionally, be mindful that irrespective of any Base Rate move, fixed rate mortgages are influenced by SWAP rates (the interest rate charged between banks for lending to each other). In recent months, SWAPs have been on a broadly upward cycle.

Although, we're also conscious that some lenders might be keen to build their market share, and offer better deals to generate more business.

The other main option is a **tracker rate** where the initial rate signed up to may vary dependent on what it's tracking. It's important to do the maths, as some tracker deals could be a better option, even if rates did rise slightly.

Standard Variable Rate (SVR)

Any future increase in the cost of mortgages would be a concern for the **2.8m** or so who currently sit on an SVR with their lender.

(Source: UK Finance, 2017 figures)

With an average SVR rate of 4.6%*, borrowers could possibly save £000's if they remortgaged onto one of the current deals.

(Source: *which.co.uk, May 2018)

Albeit, some of those on an SVR may feel they wouldn't be able to secure a new deal due to the more stringent requirements in place. That may be the case, but just as easily it might not. If nothing else, it makes sense to have a chat.

Alternatively, you may be on an **interest-only** deal that's reverted to the SVR rate; but unsure if you could remortgage onto a better deal, or perhaps want to switch to a repayment scheme. Again, do talk to us.

The Self-Employed

The rapid growth of self-employment has been a pronounced feature of the UK labour market in recent years. Back in 2001, there were 3.3m self-employed people (12% of all workers), by 2017 this had increased to 4.8m (15.1%).

(Source: Office for National Statistics, Trends in Self-Employment, February 2018 release)

Even though this group **accounts for almost one in six of all workers**, the options for seeking a mortgage have been fairly limited. This is partly due to the fact that there's likely to be an irregular income stream, as some months may show a decent income, whilst others require a bit of belt-tightening. Lenders tend to prefer a stable income stream. However, the tide may be turning, so there could now be more options to consider.

The First-Time Buyer

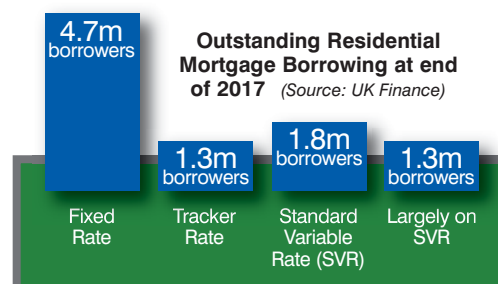
Much has been done over the last few years to make it easier and cheaper for the first-time buyer to gain a foothold in the property marketplace, and do talk to us to find out more.

Meeting the criteria

We could also help navigate you through the raft of tighter rules, which now apply to **evidencing of income** and **affordability** measures. This is in place to ensure that borrowers are stress-tested to see if they can, not only meet current payments, but are also able to cope should the interest rate rise.

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.



BORROWER FACTS (Residential)

AVERAGE FINDINGS	HOME MOVER	FIRST-TIME BUYER
Property Price	£245,232	£167,197
Loan-to-Value	73.4%	84.9%
Loan Size	£180,000	£141,950
As an Income Multiple	3.41	3.62
% of Monthly Gross Household Income (to service capital & interest repayments)	17.5%	17.2%
Age	39	30

(Source: UK Finance, April 2018 figures for type of borrower, released June 2018)

The **BUY-TO-LET LANDLORD** has faced a deluge of new rules, regulations and tax changes over the last few years.

Your guiding **LIGHT...**

» The **Buy-to-Let** sector possibly became the victim of its own success, with both the government and regulatory bodies now applying more control. It's viewed as a decent revenue source by the government. Meanwhile, the Bank of England sees the sector as more likely to be cyclical in nature, which it feels could impact upon a measured recovery in the economy.

Struggles for potential First-Time buyers

Whilst 81% of those that want to buy their own property feel that money on rent is a waste, the same research shows that 40% of prospective first-time buyers view raising a deposit as the number one obstacle, and one in four were refused a mortgage when applying via their main bank.* So this will help to fuel levels of demand for renting, as will any diminishing supply, should the expected 380,000 landlords (19% of the market) offload property in the next 12 months.**

(Sources: *Aldermore, June 2018; **National Landlords Association, May 2018)

Changing nature of the marketplace

Over recent times the marketplace has also become polarised. On one side we see that around one in five landlords are 'accidental' ones, where they've entered the private rental sector without really planning to through marriage, inheritance and other events.

(Source: Foundation Home Loans, June 2018)

At the other extreme, we have the professional landlords, who may have a number of properties to manage.

Key regulatory and tax developments

In this respect there are numerous initiatives to get to grips with, such as the **stamp duty increase**, and **stepped reduction in tax relief**. Then, stricter regulatory rules were introduced, requiring lenders to **stress-test likely future interest rates** over a five-year period (unless the loan rate is fixed or capped for five years or more). This was followed by new special underwriting rules for those 'portfolio' landlords that have **four, or more, managed properties**.

How we can help...

For our part, we operate in the mortgage lending environment, day-in, day-out, so we would know where to identify suitable deals, and then how to assist you in pulling together the

LIMITED COMPANY STATUS

- Placing properties within a limited company means that they shouldn't be affected by the tax relief changes, and lenders may apply a less stringent rental calculation as a result.
- This is a route a number of landlords have opted for, but it won't be right for everyone, particularly those with just one or two properties. For this reason, it's vital that you obtain tax advice from your accountant.
- However, the lenders have recognised the demand and an increasing number of products are becoming available to provide for this need.

increasing amount of paperwork that's required these days (particularly for portfolio landlords) to meet the needs of the lenders and the industry regulators. So please do 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.

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.**

We are independent and for arranging a mortgage we charge a fee of £95 for any research undertaken and £300 payable to cover our advice and the administration of your mortgage application. We will also be paid commission from the lender.

■ The contents of this newsletter are believed to be correct at the date of publication (June 2018).

■ 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.

■ Please inform us if you no longer wish to receive this newsletter.

■ 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: 01462 815095 Email: info@coagentfp.co.uk
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