

Mortgage & Protection news

The newsletter from Cogent Financial Planning Ltd

Overall, the certainty of the election result is likely to be welcomed by the financial markets, and may herald a return of homeowner, business and investor confidence in 2020.

» Prior to the general election, a report conveyed that persistent economic and political uncertainty was continuing to deter both house buyers and sellers. Albeit it also expected house prices to pick up over the next 12 months. *(Source: RICS, December 2019)*

Whatever you may think of the election result, we now have some clarity around Brexit and the political direction being taken. From here, many people may simply want to get on with their lives and implement the property and mortgage plans they've possibly been holding back on, whether that's for:

- a **house move**.
- improving the **current property**.
- buying a **first home**.
- purchasing an **additional property**.
- expanding the portfolio as a **landlord**.

Alternatively, you may be coming towards the end of your current 'deal period', have been sitting for far too long on your lender's Standard Variable Rate (SVR), need to raise further funds, or are keen to move to a better deal.

With regard to the latter points, this is



Time for ACTION...

reinforced by the industry regulator, who estimated that 800,000 borrowers could switch their mortgage and make an average saving of £1,000 a year across the introductory rate period. *(Source: Financial Conduct Authority, Mortgages Market Study, March 2019)*

Whatever your plans, you are probably aware that we're still in a scenario where there are excellent mortgage deals on offer.

Of course, whilst the lenders are keen to do business, you still need to meet their stringent lending criteria, and that's why it's vital that you take advice. Particularly as it can be a confusing process, with so many product options and deal rates out there.

The Mortgage marketplace

Whilst the political uncertainty may have impacted on the property market, the mortgage loans sector has been in relatively good health. **Remortgages** are thriving as people look to lock into the lowest rates

possible. The interest in remortgaging may come as no surprise when you consider that households now only move once every 20 years, up from every eight years in the 1980s.

Elsewhere, **First-Time Buyers** are at their highest share of housing sales since 2007, accounting for more than one in three sales (36%) and 50% of mortgages for home purchase. *(Source: UK Finance, December 2019 report)*

Don't forget Protection cover

Whether you're still living at home, renting, or a homeowner, it makes sense to have insurance cover in place to protect your life and/or loss of an income stream.

Talk to us to hear more about this, and how we could help with any mortgage needs.

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

Cogent Financial Planning Ltd

Suite 6, Brewers Yard, Ivel Road
Shefford, Bedfordshire SG17 5GY

Tel: 01462 815095

Email: info@cogentfp.co.uk

Web: www.cogentfinancialplanning.co.uk

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.**



Your biggest expense

With Property Debt accounting for over 90% of total UK household liabilities, it probably makes sense to seek advice.

(Source: Office for National Statistics, Household Debt Survey, December 2019)

» For many of our needs we happily purchase online, but with the myriad of mortgage products out there, and the fact that it is such a sizeable and complex purchase, why wouldn't you seek professional help?

To reinforce this point, industry data shows that intermediaries (such as us) originate three-quarters of all 'residential mortgages' (by value), up from less than half in the 2009-12 period. With regard to

landlord 'buy-to-let mortgage' business, this figure increases to almost 90%.

(Source: UK Finance, December 2019 report)

Work through the choices

We endeavour to deliver a human face to help make sense of the most suitable options on offer for you.

For example, the vast majority now opt for a fixed rate mortgage, but a tracker rate may be better for your needs. Securing the introductory mortgage rate for five years, is now more popular than the two-year deals, but again, flexibility offered by a two-year one may be more suitable.

In terms of the overall length of the mortgage, in the past, 25 years was the

standard length. However, to reflect the development of mortgage terms running into our 60s and beyond, the 30 and 40-year terms are becoming more popular - delivering a cheaper monthly cost, albeit more expensive overall.

We're there for You

Additionally, we recognise that most of you have time-pressed lives. We will endeavour to reduce the hassle of filling out forms and applications.

We'll help navigate you through the raft of tighter rules, which now apply to 'evidencing of income' and 'affordability' measures.

We also take a view of the wider marketplace rather than just what's on offer from one high street lender.

Plus, we can highlight the insurance you should consider to cover the mortgage debt and your income stream(s).

So, irrespective of whether you're new to property buying, or an old hand, we have experience of dealing with all types of clients, enabling us to work towards identifying the most suitable product for you.

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.

Mortgage Calculator

Monthly payments for a mortgage per £1,000 borrowed over 30 years

Interest rate %	Interest-only* £	Repayment £
0.25	0.21	2.88
0.50	0.42	2.99
1.00	0.83	3.22
1.50	1.25	3.45
2.00	1.67	3.70
2.50	2.08	3.95
3.00	2.50	4.22
3.50	2.92	4.49
4.00	3.33	4.77
4.50	3.75	5.07
5.00	4.17	5.37
5.50	4.58	5.68
6.00	5.00	6.00
6.50	5.42	6.32
7.00	5.83	6.65

Here's how to use the mortgage payments calculator: A £100,000 mortgage over 30 years, charged at a 2% interest rate would cost 100 x £3.70 (for Repayment) = £370 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.

Credit Rating - check yours

Quite apart from not being able to vote, if you're not on the Electoral Register it may result in a lower personal credit rating score.

» 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!

So do check your rating at one (or some) of the following:

- Checkmyfile** - Tel: 0800 086 9360
www.checkmyfile.com
- Experian** - Tel: 0800 013 88 88
www.experian.co.uk

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

TransUnion - Tel: 0330 024 7574
www.transunion.co.uk

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.

Protection myths



(Source: Royal London, State of the Protection Nation, June 2019, referencing Pacific Life Re research)

We largely view 'death' as the most likely 'bad' health event that could affect us across our working lives. Yet, from the right hand chart above, you'll see that, in reality, you're far more likely to survive, and face a serious illness, or be off work for a lengthy period.

» That said, this doesn't mean that you should disregard taking out life cover, as research shows that, on average, around 264 UK adults, aged 18-65 die each day.

(Source: Office for National Statistics, 2017 data, July 2018)

But possibly of greater importance is to consider further protection that's designed to lessen any loss of income should you face a serious illness, or be off work for a lengthy period.

There are two product offerings that can help protect you in these circumstances:

- **Critical Illness Cover** - pays out a lump sum when you have a specified critical illness.
- **Income Protection** - pays you a percentage of your monthly income when you can't work due to illness or injury.

Do they pay out?

Many assume that the plans don't pay up, yet a massive 97.6% of all claims were paid out in 2018, equating to £14.5m a day! (Source: Association of British Insurers, 2018 data, May 2019 release)

Do I even need it?

This is a possible further misconception, particularly as you may feel that it's difficult to contemplate needing a protection policy,

until **you really need it!**

Additionally, some will think that their employer will provide all of the support needed. This may be true, but do check your contract to establish the level of financial help you'd get, and (if it's not for death in service) for how long. Balance this with the care you receive from the NHS, and the limited financial support from benefits such as Statutory Sick Pay and Universal Credit.

Mental Health issues

In recent years there has been a far greater understanding of the need to deliver real and financial support to those insured who may suffer a mental health issue. Also, those that have previously faced this might feel that they would then be excluded from taking out future cover, such as Income Protection. However, some insurers may now take a more considered approach, rather than the standard 'accept' or 'decline' decision-making.

Added-value benefits

The insurance industry recognises that a payout upon claiming may be the initial driver in setting up a policy. But it's also aware that there is a real benefit - for both parties - if a relationship is maintained

throughout the policy term, as reflected by the following examples:

- Incentives to keep healthy.
- Specialist support - such as GP/nurse helplines, telephone counselling, carer support services, consumer rights, early intervention and rehabilitation services.

With such a wide range of options on offer, do talk to us, and you may also be pleasantly surprised at how little a plan might cost.

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

Standard Variable Rate

There are at least 1.4m mortgage borrowers on their lender's Standard Variable Rate (SVR).*

This is a sizeable chunk of all mortgage borrowers and with the average SVR sitting at 4.90%, this group would be on an interest rate that's around twice the average 2-year fixed deal cost.** Using the chart on page 2, those on an SVR (if it's a £100,000 mortgage, for example) might be able to remortgage and pay around £1,700 a year less (circa 5% rate vs. circa 2.5%).

(Sources: *UK Finance, June 2019 data;

**Moneyfacts, December 2019)

Circumstances have changed

Some may feel they can't remortgage because they won't meet the stricter affordability and evidencing of income criteria. This might be true, but why not have a chat, as there may be a solution.

Mortgage Prisoners

This broadly amounts to 150,000 borrowers, most of whom are stuck with a lender that no longer lends. However, the Financial Conduct Authority (FCA) has introduced new guidelines, which may overcome this problem, so do talk to us to hear more. (Source: FCA, Nov. 2019)

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.**

Assistance for the SELF-EMPLOYED

The number of **Self-Employed** workers in the UK has almost hit 5m (representing 15% of the total workforce), yet this group still faces problems when it comes to securing a **Mortgage** and has eligibility concerns regarding **Protection** cover.

(Source: Office for National Statistics, Labour market overview, December 2019)

Securing a Mortgage

Whilst lenders may not necessarily view the self-employed as a greater risk to lend to, they do have issues about how to assess their ongoing income.

This is compounded by the way some self-employed organise their payments to ensure they're tax-efficient, which may work against them when endeavouring to demonstrate to a lender they have the ability to fund the loan they wish to take out.

The term 'self-employed' can also present a problem for lenders, as it pulls together a whole host of different individuals, such as contractors, sole traders, gig economy workers, freelancers, and early-stage start-ups. This could mean that a myriad of workers with differing income streams and earning potential are lumped together, resulting in the computer possibly saying: 'no'.

However, interestingly, those self-employed who have jumped through the hoops and secured a mortgage may be a safer bet than first-time buyers, for example, as analysis shows that they could have taken out a mortgage 29% larger than the original loan borrowed. (Source: Kensington, Affordability Tracker, Q2 2019)

Income Protection

Here's a fictional example of how an Income Protection plan could play out...

Adam runs an IT consultancy. In the last tax year he earned a gross salary of £90,000. After reviewing his monthly expenditure he took out a Self-Employed Income Protection policy covering 50% of his annual earnings, totalling £45,000 or £3,750 per month.

He opted for long-term cover that would pay out the tax-free monthly benefit for as long as he may need it, if he was unable to work and earn an income. He also opted to defer any payouts for six months, as he had sufficient savings to see him through this initial period, resulting in cheaper premiums.

Two years after taking out the policy, he developed cancer, and his claim was approved. In total, Adam was off work for three years. Over this period, he received 30 monthly payments of £3,750, totalling £112,500, enabling him to meet his financial obligations whilst off work, and to focus his energies on recovery.

There are a multitude of providers and product choices to consider, so it makes sense to take advice.



Along with possible conversations with your accountant to discuss how your payments are structured to make you more appealing to a lender, it's vital that you also talk to us, to help identify the lenders that may be interested in doing business with you. And there are a number of them that are more amenable to this sector, and why wouldn't they be when there's a marketplace of 5m individuals to target!

Protection considerations

Nearly a third of self-employed and contract workers would run out of money within a month if an accident or illness stopped them working. (Source: LV, November 2019)

Should they be off work for a lengthy period due to illness or injury - the majority of self-employed workers will not be entitled to Statutory Sick Pay and would, instead, have to pursue a lengthy claim for benefits such as Employment and Support Allowance, and any other benefits, dependent on the severity of the illness. Yet it's unlikely that payouts would equate to the average UK household expenditure of almost £600 per week.

(Source: Office for National Statistics, Family spending in the UK, January 2019)

That's why it's possibly vital that the self-employed consider income protection, as well as life and critical illness cover.

Income Protection would deliver a regular income, for a short-term period, or even up until retirement. It could be highly relevant, yet many wrongly believe that they won't be eligible for it. That's why you should talk to us.

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

■ **Your home 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 (January 2020).

■ 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 do hope that the newsletter is of interest to you, however, please inform us if you no longer wish to receive it.