Summer 2012

Mortgage & Protection news

The bulletin from IMS - Insurance & Mortgage Services Ltd

ims INSURANCE & MORTGAGE SERVICES LTD

You may feel there's no need to take stock of your monthly mortgage payments, when assessing the last few years. Or is there....?

Plan for the LONG RUN

» As mortgage terms tend to be set up to run over 20 or 25 years, you do need to consider how things may develop, not just across the short term, but for the next few years and beyond.

Of course, the low interest rates of recent times have meant there's a tendency to stick where you are - even if you've now reverted to the lenders' Standard Variable Rate (SVR). Which, in a good number of cases, has been a suitable option.

But, the tide may be starting to turn…

A helping hand

There is the assumption, in some quarters, that the banks are hoarding cash to protect themselves against any current and future Eurozone crisis, which may then limit their ability to borrow.

The recent Government and Bank of England funding initiatives are designed to ensure that they stop hoarding and start lending again. The most relevant stimulus initiative is the 'Funding for Lending' scheme, where up to **£80bn may be on offer, with the commitment that the banks then lend this money to either businesses or individuals looking for a loan.**

Different lenders will react in different ways to this, and to other issues. To help find the most amenable lender for your specific needs, it's important to take advice, and we can then do the legwork for you.

Rates on offer

Both fixed and variable tracker rates have been at an all-time low. Whilst the best average rates were across the latter part of last year, there are still good deals to be had. So you may need to decide if it's sensible to act now, particularly if you feel that interest rates on products will increase over time.

(Source: Moneyfacts, to July 2012 figures)

Loan-to-value (LTV)

It's still fair to say that the best deals will be offered to those that can provide a sizeable deposit (40% or more). However, there's been a steady improvement over time, with a return of some higher LTV deals. This may open up opportunities for those wishing to either remortgage or to look at purchasing their first home.

Standard Variable Rates (SVR)

Over the last three years, an increasing number of borrowers have come off their deal rates and reverted to their lenders' SVR. And it may have come as a shock to many to see that major lenders, such as the Halifax, increased their SVRs this year, even though there's been no comparable rise in the Bank of England Base Rate.

→ **(contd on back page)**

IMS - Insurance & Mortgage Services Ltd

Applegarth
The Reddings
Cheltenham GL51 6RL

Tel: 0845 2930849
Email: enquiries@ims4you.co.uk
Web: www.ims4you.co.uk

V1

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.**

■ IMS - Insurance & Mortgage Services Ltd is authorised and regulated by the Financial Services Authority.

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

ARE MEN AND WOMEN EQUAL?

Well... they are if you consider the decision by the European Court of Justice (ECJ)!

From 21 December 2012, the ECJ has ruled that insurance companies will no longer be allowed to take someone's gender into account when making premium calculations for products such as car insurance and protection policies.

Is this ruling better for men or women?

It depends on the product. The theory is that life cover, for example, should increase in price for women after this date. HM Treasury feel that female term life policies could increase by 10-15%, critical illness policies by 12% and a hefty premium increase of up to 25% for younger female drivers.

(Source: HM Treasury, Gender-Neutral consultation document, December 2011)

Of course, some have taken the view that figures are unlikely to move by the same amount in the other direction for men!

Additionally, there are other issues that may result in increased prices into the future for insurance or protection products, such as taxation changes for life insurance companies, effective from 1 January 2013, which is likely to have an impact on premiums.

When to act?

If you recognise that there's a need for insurance and protection cover, then why delay? Particularly when it makes sense to assess if it works to your advantage to take out a policy prior to 21 December. Also, remember that some policies may take a while to set up, and there's likely to be a bottleneck as we approach the December date, so do get started as soon as possible, to ensure it's in force before the deadline.

That's why you should have the conversation with us now to establish the best way forward for your needs.

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

Stick, Fix or Float...

If you're a current mortgage borrower, you may need to consider these options.

» With the continued uncertainty in the money markets and ongoing concerns with the Eurozone, anyone with a home loan faces the tricky question of whether to do nothing, or to consider remortgaging, as we set out on page 1.

Stick? - this means staying where you are, either on your current deal, or on your lenders' Standard Variable Rate (SVR).

Fix or Float? - if you decide that you want to consider taking action, then you need to balance the security of a 'fixed term' rate, against the floating option of a 'variable tracker', that's generally linked to the Bank of England Base Rate.

A fixed rate may be more expensive initially, but you have the comfort of knowing what you'll be paying, and the possibility that the rate may work in your favour across the latter part of the deal period. Alternatively, with a variable tracker rate, if you can cope with your monthly repayments fluctuating (and possibly rising), you may find it's better value at the outset, and then you'd make a judgement on how you think it may play out over the period of the deal.

Which option for you?

The most popular route for borrowers, over recent years has been fixed rates, with 65% taking out a loan on this basis, according to the Council of Mortgage Lenders (CML) figures for the first quarter of 2012. Albeit that has dropped from the highs of around 77% achieved back in the second quarter of 2007.

Whilst fixing over a longer period clearly has its advantages (no arrangement fees to pay every few years), if you fixed today, you may find yourself locked into a deal that may make life difficult if your circumstances change, through events such as job loss, job change, divorce, bereavement, or relocation abroad.

Alternatively, there are middle courses, where some products may allow you to switch from a 'variable' to a 'fixed' rate at a later date (subject to the rates at the time).

The next step

There is still a possibly bewildering choice of mortgages out there, should you be coming towards the end of your deal period, or are sitting on an SVR. You also need to be mindful of arrangement fees and tie-ins, which may make it difficult to compare like with like. And, of course, the lenders continue to be picky about who they lend to.

For our part, we understandably already have a good feel for possible products for your needs and circumstances, thereby helping to save some considerable time and effort on your side. And, hopefully, we'll help avoid any potential damage to your credit rating from you making multiple applications.

Do get in touch to find out more.

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.**

Lots of LANDLORDS!

Buy-to-Let can deliver opportunities for existing, potential and even 'accidental' landlords*.

*(*those that have entered the buy-to-let market by opting to rent out their property, rather than selling it, when moving into a new home)*

With the continued volatility in the stock markets, low interest rates on savings, broadly stagnant house prices, and the difficulties for First-Time buyers, it's not surprising that new landlords are entering the rental sector. And, according to Paragon, some of those already within it are looking to increase their portfolio of properties. *(Source: Paragon Mortgages, Q2 2012 survey)*

A reflection of this is that around one in eight of all outstanding mortgage lending falls within the buy-to-let category. And there has been a healthy 32% increase year on year for the first quarter. *(Source: Council of Mortgage Lenders, Q1 2012 vs. Q1 2011)*

Do your research

Here are a few tips that may help the budding landlord, in particular.

Tip 1 - You must differentiate between your own 'residential home' and an 'investment property'. You can fall in love (or enjoy a labour of love) with the former, but the latter should be a commercial decision.

Tip 2 - Speak to letting agents about areas that are good for renting and how much rent you can expect. And decide who you want to target; such as young professionals, students, or families.

Tip 3 - Do the maths. Once you've located a suitable area, work out how much you will need to borrow, and what you expect to get back. Most lenders will want to see a rental income of at least 125-130% of your monthly mortgage repayments.

Tip 4 - Plan for void periods, when you will have no income, but still have to meet property-related bills, such as council tax, and repair and maintenance costs.

Tip 5 - Be aware of the landlord insurances required, the regulatory issues, and the need to check out prospective tenants. And decide if you want to handle the process yourself, or appoint a letting agent.

Take advice

This shows that you need to be disciplined in your approach to buy-to-let, but it's obviously not dissuaded the existing army of landlords. Along with any discussions you may need with your accountant or solicitor, we can help you to assess your long and short-term plans, when looking at the buy-to-let mortgage deals on offer, along with the necessary insurance cover. So please get in touch.

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

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 Services Authority does not regulate legal and taxation advice, and most Buy-to-Let mortgages.
As with all insurance policies, terms, conditions and exclusions will apply.

House Selling IDEAS

Householders wanting a swift property sale should worry less about hiding the rubbish bins and buying fresh flowers, and spend more time de-cluttering, according to recent research.

The survey set out that many householders have misconceptions regarding some of the smaller tasks that may help them to sell their property, when compared to what the property valuation experts felt.

More than half (60%) of property experts said that the number one way to increase a property's chance of selling quickly, and for a healthy price, was to de-clutter.

Below we also set out some of the key improvements suggested by the 'experts' against the percentage of 'homeowners' who also thought it might make a difference - with markedly varying viewpoints in some cases!

Simple improvement	% of experts who think it would make a difference	% of homeowners who think it would make a difference
De-clutter home	93	71
Repair paint chips or wallpaper	75	56
Cut grass and trim flowerbeds	71	66
Repair fences and gates	64	44
Repaint/varnish the front door	63	23
Clean windows (in and out)	44	69
Place rubbish bins out of sight	30	41
Buy fresh flowers for indoors	7	38

(Source: HSBC Home Improvement Survey, April 2012)

Is it time to consider your MORTGAGE OPTIONS?

Here's how to use the mortgage payments calculator:
A £100,000 mortgage over 25 years, charged at a 4% interest rate would cost 100 x £5.28 (for Repayment) = £528 per month.

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

% Interest rate	Interest-only* £	Repayment £
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
7.50	6.25	7.39
8.00	6.67	7.72

(Source: Halifax, June 2012)
*** 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 amounts shown. Please contact us for a personalised Key Facts Illustration.

Options for the FIRST-TIMER

It's no surprise that over 70% of First-Time buyers say that the biggest barrier they face is the need to raise a large enough deposit.

(Source: Building Societies Association, Property Tracker survey, July 2012)

» If you (or your offspring) find yourself in this situation, there are opportunities out there that are largely targeted at helping the first-time buyer get their foot on the property ladder.

Government and other initiatives

Subject to certain eligibility criteria, there are two main routes here; either **Shared Ownership** or **Shared Equity** schemes. With Shared Ownership, the homebuyer buys a share of a property, with the remainder being owned by a third-party, such as a Housing Association. This helps tackle the deposit issue, although the homeowner does have to pay rent on the portion they don't own.

Shared Equity schemes are when the homeowner buys 100% of the equity of their property, with a third-party providing an additional loan to help cover all or the majority of the deposit required. In this scenario, the homeowner will need to pay interest on both loans.

There are various Government, Local Authority, Housing Association, etc, initiatives that are up and running throughout the UK, so do talk to us to establish what may be on offer for you.

The Bank of Mum & Dad

Of course, additional support for a deposit, or help in qualifying for a mortgage, may exist closer to home, as many first-time buyers receive assistance from their parents (or even grandparents). 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.

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 a route to consider.

These options may deliver an excellent solution for you - but all of them may raise complex issues - so do contact us first to find out more.

➔ **(contd from page 1)**

The move by the Halifax brings them up to the general standard SVR for the major lenders of around 4%. So there may not be a raft of increases from elsewhere.

However, it has shown that the lenders are at liberty to choose if they wish to increase their SVR. And don't forget that some SVRs for the smaller lenders are already sitting around 6%. *(Source: Moneyfacts, July 2012)*

Mortgage prisoners

Within this mix, there are obviously some that could be viewed as mortgage prisoners. While they may be able to continue meeting their existing mortgage payments, they may feel they won't qualify for a new loan due to a multitude of reasons, such as a lower income, or a reduction in the value of their property from when they initially took out their loan, resulting in less equity for them to play with. However, solutions may still exist for some within this group too - so again, it makes sense to take professional advice.

The above are just some of the factors that currently affect the mortgage marketplace and perhaps now's the time to take stock of where you are, and where you want to be in a few years time. So do get in touch to see if there are any more suitable options out there for you.

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

■ **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: 0845 2930849 Email: enquiries@ims4you.co.uk Web: www.ims4you.co.uk

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

We do not charge a fee, as we will be paid commission by the lender.