

# the mortgage

The bulletin from IMS - Insurance & Mortgage Services Ltd

It's been a difficult couple of years and the picture for this year may be no clearer.

Across the board, there has been a noticeable improvement in the total number of products on offer and a rise within the 80-90% Loan-to-Value (LTV) range, but it's still the 60% (or less) LTVs that will deliver the best deals. *(Source: Moneyfacts, January 2011)*

## House Prices

In 2010, house prices started to drop slightly across the latter part of the year. If we see a continued decline across 2011, then this may affect your ability to access those better deals.

For example, if you are an existing homeowner and prices (or valuations) fall, this may reduce your equity in the property. You may then find yourself in the 75% LTV bracket to secure the funding you need, when 60% LTV may have been feasible prior to any price (or valuation) drop.

## Spending Review

The austerity measures (and VAT increase) could mean remortgaging now (especially on a fixed rate) may help with future budgeting.

## Regulatory proposals

Additionally, there's a big regulatory review in process (the Mortgage Market Review), which may further tighten the criteria for lending into the future when the proposals are finally implemented.

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# Your move...

» For many, the issues for 2011 are 'how interest rates will play out' and should they remortgage now to secure a new deal, to reflect a property move or to raise additional funds.

The advice for some in 2010 was to stay with your current mortgage deal, and it may be the same again this year. However, a number of new factors have come into play, which may influence that view.

## Impact of inflation

At the time of writing, the Base Rate has stayed at 0.5% since March 2009 - yet, in recent months the tide may be turning. The impact of Quantitative Easing and other factors affecting the inflation figure may mean the Bank of England need to

consider raising rates sooner than many commentators had initially expected.

## Better product offerings

The products on offer have recently become more competitive. For example, the average 5-year fixed rate stands at 5.33%, against 6.09% a year earlier. And as that's the average, there are obviously products on offer at a markedly lower rate than this. Even if they don't beat what you're on at the moment, you should consider where you think interest rates will be across the next five years. *(Source: Moneyfacts, January 2011 vs. 2010)*

Alternatively, we could look at some of the shorter-term fixes and variable tracker rates on offer, as you may be pleasantly surprised.

## IMS - Insurance & Mortgage Services Ltd

7 Manor Park Business Centre  
Mackenzie Way  
Cheltenham GL51 9TX

Tel: 01242 510090  
Email: [enquiries@ims4you.co.uk](mailto:enquiries@ims4you.co.uk)  
Web: [www.ims4you.co.uk](http://www.ims4you.co.uk)

**Welcome....** to this newsletter, which covers what we believe are some of the key issues of the moment that affect mortgages and mortgage-related 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.**

# IF YOU FALL DOWN

The impact of the Comprehensive Spending Review may have a profound effect on some of us over the course of this year.

Consequently, you may now feel it's prudent to have protection in place against **unemployment**, or being off work long-term, due to an **accident** or **sickness**.

Of course, if you can't work due to sickness or an accident, then you should first consider what you might receive from your Employer (and perhaps the State too) - as workplace benefits may cover the first 3-6 months of absence. This could influence when you want your cover to kick in - as the longer the deferment period you opt for, the lower the premium.

**Accident, Sickness and Unemployment (ASU)** is one type of cover you could opt for. And some providers may allow you to cherry pick which of the above elements you'd like to be included. The payouts (up to a maximum of around 55-65% of your normal monthly income) tend to last for generally up to 12 months, thereby hopefully covering the period as you try to get yourself back on your feet.

**We're here to help, so do let us know your needs and we'll try to find the right option for you, whether that's ASU or an alternative.**

» Last year's Spending Review set out that around 490,000 public sector jobs may go by 2014-15 (albeit reduced to 330,000 in the Autumn Forecast). On top of this, according to PWC research, there may be a similar number of job losses within the Private sector too, for businesses that relied on contracts with the State.

*(Source: PWC, November 2010)*

The same Spending Review had the Government tightening up on how it treats claimants for long-term sickness or disability.

### Not applicable to all

If you know or suspect that you are going to be made redundant at the time of taking out the policy (and have this element as part of your policy cover), then this would invalidate any claims you subsequently make. The same may also apply to any pre-existing medical conditions or illnesses.

And you may also face problems in taking out this product if you are self-employed, a temporary or contract worker, have been with your current employer less than six months, or are over 65.

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

## Finding your way...

Easy and rapid access to financial information via Newspapers, TV or the Internet should make our life easier... Or does it?

Information overload can sometimes confuse, rather than enthuse decision-making, particularly when you consider the wide-range of mortgage products on offer. And that's where we can help out:

### Make your life easier

We can take away a lot of the legwork, hold your hand through the process, liaise with the various parties involved and be readily available. By using a professional broker, we should also be able to help smooth out any problems or hiccups that may occur along the way.

And, with Lenders being particularly picky about whom they lend to these days, we're there to fight your corner, and endeavour to secure the best outcome for you.

### Market knowledge

We, understandably, face a fairly rigorous process of exams and monitoring. In fact, there is a discussion currently going on where the industry regulatory body may require more customer-facing staff at the Lenders to increase their qualifications. Thereby highlighting what's already on offer from qualified brokers.

### Protect your credit rating

Each time you apply for credit, this may be recorded on the files held by the

credit reference agencies. And multiple applications could result in a downgraded rating - which may make the cost of borrowing higher (or unavailable) for you. We should have a better steer to help limit multiple applications.

### Wider market offering

Not only can we look at the wider marketplace for mortgage products, but can also identify supportive products such as Protection policies, rather than pushing what the Lender has on offer. We can also consider other aspects, such as placing some of those policies in trust, which may assist a speedier payout to beneficiaries and may also help minimise any future tax liabilities.

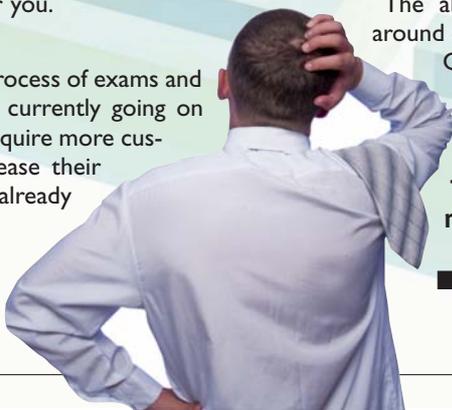
The above reasons (and more) are probably why around 60% of all mortgage lending in the 12 months to Q3 2010 went through brokers.

*(Source: Council of Mortgage Lenders, Nov. 2010 release)*

**Do get in touch to discuss your needs.**

**The Financial Services Authority does not regulate Taxation or Trust advice.**

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



# Buy-to-Let Returns!

» Much is conspiring to benefit this marketplace. For example, many first-time buyers (and others) have opted for rental accommodation due to the lack of access to mortgage funding.

This has fuelled demand, so it's no wonder that many Landlords are currently enjoying decent rental incomes and facing low levels of voids (where the property isn't being rented out). According to RICS - the surveyor trade body - rents were pushed up over the three months to October 2010. Looking ahead, the outlook for rents over the next three months remains very firm, with 34% more of those surveyed nationally expecting rents to rise, rather than fall. (Source: RICS, December 2010 release)

With a solid market to rent to, it may encourage existing Landlords to expand their current portfolios, and may even bring new entrants into the marketplace, who could be looking at ways to deliver a better return for their money.

## Fast facts

- Average cost of raising a child from birth to age 21 is £26/day.
- 1,732 people are made redundant each day.
- The daily cost of running a car is £16.08.
- The average household debt (inc. mortgages) is £57,706.

(Source: Compiled by Credit Action, Jan. 2011)

If you're unhappy with the returns you're receiving on your savings, then you could consider making them work harder for you by switching to an **Offset Mortgage**.

With an Offset - which are growing in popularity - you pool your savings and mortgage with your lender and your savings are then 'offset' against the mortgage capital.

So if your mortgage loan 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 money you have to pay each month.

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



In any recessionary period there are always opportunities out there. One of which may be for Buy-to-Let Landlords.

## Do your homework

Over recent months, there has also been a greater desire to start lending again within the Buy-to-Let marketplace, with some new Lenders entering the sector, and others returning.

But, as Lenders have markedly differing criteria as to whom they'll lend to - be it professional Landlords (sometimes limiting the numbers of properties in a portfolio), and/or the part-time Landlord, it makes sense to take advice.

And you'll still have to do your homework. For example, you'll need to consider how interest rate and house price moves may impact upon you, and whether changes in Local Housing Allowance, following the Spending Review, could affect the rental market in your area. And remember that if you consider offloading a property, Capital Gains Tax stands at 28% for higher rate and 18% for basic rate taxpayers.

Additionally, Lenders are generally

looking for a deposit of 25% or more and around a 125% rental return against the mortgage payments - to help cover any additional costs or voids. Albeit a few more 80% LTV deals have been launched over recent months.

(Source: Moneyfacts, January 2011)

It remains a complex market in which to secure funding and operate within, so do get in touch to find out how we can help.

**The Financial Services Authority does not regulate most Buy-to-Let mortgages.**

**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 property investments and income from them can go down as well as up and investors may not get back the amount originally invested.**

**You may also require advice on the legal and tax issues.**

## A helping hand

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

By opting to not earn interest on your savings and, instead, offsetting them against your mortgage, they are effectively working for you at the same rate of interest as your mortgage. The alternative is to possibly earn a lower level of savings interest, which is then normally subject to tax too.

And the beauty is that you can have access to your savings, if wanted. Although, you would need to put your money within an

account provided by the lender.

There are other benefits too, but Offset Mortgages will not be for everyone. The interest rates may be less competitive than those offered for a conventional mortgage. And Offsets also require a more disciplined approach. For example, you'll need to do the maths regarding your mortgage loan and savings, along with assessing the two rates of interest on offer.

**If you'd like to see how you could give your mortgage payments a helping hand, then talk to us, to see if it suits your needs.**

# 5 reasons to remortgage

The enthusiasm to remortgage seems to be coming back into vogue. The number of approvals for remortgages stood at 34,262 in November 2010, well above the six-month average of 28,210. (Source: Bank of England, Lending to Individuals data, January 2011 release)

With the deals on offer showing an improvement, it's becoming more attractive to remortgage. So, if you have sufficient equity in your property, then this may be a route for you too.

## 1. Tidy up your finances

If you have accumulated debts 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. By placing your debts into a mortgage you may be required to pay more over the entire term than you would with your existing debt.

If you only need to borrow a small amount, a Secured Loan may be a better option because remortgaging can incur extra costs, which may not be cost-effective for a smaller sum, and personal unsecured loans may be difficult to obtain in the current market.

## 2. Make home improvements

Improving your home may add to its relative value and should also deliver a property that better suits your needs.

## 3. Giving your kids a leg up

With first-time buyers generally needing a deposit of at least 10-15% in order to get a mortgage (40%+ for the best deals), children often need the help of the 'Bank of Mum and Dad' to get a foothold on the property ladder. By remortgaging your own home, you can release cash to help with that all-important initial deposit.

## 4. Raise some capital

Remortgaging may be a solution if you need capital to fund a purchase such as a holiday home, the cost of a wedding or to pay ongoing school fees. But remember that this means using your home as collateral. So don't take on more debt than you can service and remember that your home may be at risk if you fall behind with the repayments.

## 5. Find a Flexible mortgage

In the current climate, a flexible mortgage could prove to be useful if you think you may need to increase or decrease your monthly payments or take a payment holiday.

Most flexible mortgages also allow you to pay off your mortgage early, which might be a benefit if you have a redundancy payout or come into an inheritance.

Alternatively, a payment holiday could give you the opportunity to retrain for alternative employment. Please note that decreasing monthly payments and taking payment holidays may be subject to limitations and the terms and conditions of the mortgage provider.

## Why not get in touch to find out more.

**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.**

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

**The Financial Services Authority does not regulate school fees planning and Secured Loans.**

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### Act now?

If you do decide to act you need to consider if a **variable tracker** rate is the best route for you - where you may enjoy an initial low interest rate, but it could increase over the term of the deal if, for example, it was linked to the Base Rate and that rose.

Alternatively, you could go for a **fixed** rate - which would give you the confidence of knowing what you'd be paying across a fixed period - but is likely to come in at a higher rate at the outset than a variable.

There are even a few products out there that will allow you to **'hedge your bets'** - by starting you off on a variable tracker, but allowing you to jump onto a fixed rate - should you so desire.

**■ 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: 01242 510090 Email: enquiries@ims4you.co.uk Web: www.ims4you.co.uk**

### Don't Act now?

No action at all may still best suit your needs. But if you don't act until the interest rates rise, then fixed and variable tracker rates are likely to be higher than they are now.

In short, those who are in a position to remortgage, because they believe they can meet the LTV criteria and the Lenders' stricter requirements, should at least start thinking about it.

**Do get in touch, as we can discuss the best course of action to meet your own specific requirements.**

**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.**

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

■ The contents of this newsletter are believed to be correct at the date of publication (January 2011).

■ 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.