Summer 2010

the mortgage

The bulletin from IMS - Insurance & Mortgage Services Ltd

IMS INSURANCE & MORTGAGE SERVICES LTD

The financial Rapids

With so many factors currently having an impact on the UK housing and mortgage market, it's no wonder that there's confusion on what will happen next.

» Overall though, we do seem to be seeing an improvement in this marketplace, with a number of elements starting to move it in the right direction. According to the Council of Mortgage Lenders (CML), there have been signs of increased mortgage availability in recent months, with higher loan-to-value mortgages becoming available. *(Sources: CML market commentary, May 2010; Moneyfacts, July 2010)*

House prices too, have seen a recovery, with the average house price of £170,111 in June 2010 being 8.7% up year-on-year - and only around 9% lower than the peak price of October 2007. *(Source: Nationwide, June 2010)*

And with the UK not building anywhere near enough new homes each year, this will fuel any demand for housing.

So what does this mean for you? Well, the big issues continue to be **when interest rates will move upwards,** and the ability of a borrower to meet the Lender's criteria to secure a new mortgage. With our extensive market knowledge, we can help with the latter, but the former is still something that's up for discussion.

Interest rates

Whilst there's a broad consensus that the Base Rate may not move upwards for a while, there are also a number of current factors that could influence an earlier upward trend. For example, annual inflation in June 2010 was 3.2%, which is well above the 2% target. And fuel prices, along with the unknown longer-term effects of the Quantitative Easing programme of pumping money into the economy, may drive it even higher. And there are voices out there, such as the Organisation for Economic Co-Operation and Development (OECD) who feel the Base Rate may need to rise from its current level of 0.5% to 3.5% by the end of next year to combat inflation! *(Source: OECD, May 2010)*

And whenever the time does come to tackle inflation, the Governor of the Bank of England in his Mansion House speech in June 2010 hinted that raising the Base Rate at some point in the future would be their initial route ahead of other options.

So whilst a good number of you will be enjoying some of the lowest interest rates you've ever encountered, it makes sense to take advice to see how you can meet any borrowing needs, not just for 2010, but into the longer-term.

In the shorter-term, 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.

Impact of the Budget

Belt tightening is the order of the day, with some initiatives directly affecting the housing and mortgage marketplace.

We've already seen the end of HIPs, which has encouraged more homeowners to dip

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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.**

RELAX... it's under control

In the same way that you'll seek the professional advice of doctors, lawyers and tradespeople, it makes sense to use a professional to help you through the mortgage and protection maze.

» And you won't be alone, as almost two-thirds of all mortgage lending in the first quarter of 2010 went through brokers, and this is why…

(Source: Intermediary Mortgage Lenders Association, May 2010)

Market knowledge

Lenders these days are more discerning about who they lend to. For our part, in addition to using computer systems to scour the market, we work in this arena day-in, day-out, so we have an excellent understanding of how Lenders operate. And which Lender may offer the most suitable deal, whatever your employment status - with simple or complex income streams.

And unlike going direct to a High Street Lender - who will offer their own range of mortgage and protection products, we can provide you with all relevant information across the wider marketplace. This will enable you to make a fully informed choice as to the most suitable product for your own situation.

Time saving for you

Once we establish your requirements, we can see what's on offer and help guide you through the process by liaising with all parties. Hopefully, this will greatly reduce the amount of time you may need to devote to your application.

Protect your credit rating

Each time you apply for credit, this may be recorded on the files held by the credit reference agencies. It could result in a downgraded rating - which may ultimately make the cost of borrowing higher for you. As we should have a better steer on where you may secure an offer, we can limit the number of Lenders that need to be approached.

Not just mortgages...

As you may be aware, we can also cover a number of financial products beyond mortgages and can discuss those wider requirements with you too.

So, if you are looking for a specific product or simply wish to review your current arrangements, do get in touch.

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

Too young to die?

The unexpected could happen at any time. Did you know that almost 50 adults, aged under 44, die every day!

(Source: Office for National Statistics, 2009 figures for England & Wales)

There are numerous protection policies out there to help provide cover should you lose your job, suffer an accident, or have a long-term or life-threatening illness. Of course, you may recover from all of the above, return to work and get your finances back on track. But what if you die? There's no second chance!

That's why it's vital that you (and your spouse) have some life cover in place, in order to protect the ones left behind.

And there's no excuse for not considering taking out life cover, with rates lower now than they were five years ago! For example, if you were a 39 year-old, non-smoking male, looking for £100,000 of life cover, over a 20 year term, then it may cost around £12.57/month today against £16.12/month five years ago! And if you started the same policy at age 29 - then the price would be almost half, at just £7.33/month - less than the price of a weekly take-away coffee!

(Source: Moneyfacts; comparison of the average premium from over 20 firms; June 2010 vs. June 2005)

And once you do set up life cover, consider placing the policy in trust, to help ensure it's not added to the value of your estate for inheritance tax.

As with all insurance policies, terms, conditions and exclusions will apply. Any premium quoted is an estimate only and that the actual premium will depend on individual circumstances. The Financial Services Authority does not regulate Taxation or Trust advice.

Buy-to-Let

The availability of Buy-to-Let mortgages were one of the biggest casualties of the economic downturn - but have made a return over recent months.

There has been a greater desire to start lending again to the buy-to-let market. This viewpoint has also been reinforced by an increasing number of Lenders returning to this sector, coupled with a growing number of products on offer - with slightly better interest rates and less hefty fees.

Of course, it's not back to the old days when property prices were roaring upwards, coupled with a more relaxed lending environment. So you'll still have to do your homework, whether you're an existing landlord or are keen to enter this marketplace. Particularly as Lenders are generally looking for a deposit of 25% or more. And seeking around a 125% rental return against the mortgage payments - to help cover any additional costs or voids, when the property isn't being rented out.

And, of course, the recent rise in Capital Gains Tax (CGT) from 18% to 28% for higher rate taxpayers, may temper the enthusiasm for those looking for (or who have enjoyed) 'capital appreciation'. Albeit CGT does remain at 18% for basic rate taxpayers. Whatever your position though, your initial investment in buy-to-let should really be driven by securing a regular rental income, and to view it as a longer-term investment.

So don't forget the positive signs out there. There continues to be good tenant demand, coupled with the level of both rent arrears and voids stabilising. The Q1 research from the Association of Residential Letting Agents (ARLA) shows that over 30% of ARLA members felt that achievable rent levels had increased in the last six months, compared to just 12.5% being of the same view at the end of 2009. And Paragon Trends research shows that the number of landlords wanting to purchase property has nearly doubled, with 21% looking to do so in Q3 of this year, against just 12% in Q2.

(Sources: ARLA, March 2010; Paragon, June 2010)

All fairly positive, but it's still 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. Past performance is not a guide to future performance.

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

BUY-TO-LET TIPS

- **Understand the area in which you wish to purchase.**
- **Decide which type of property you're after.**
- **Who you want to target; ie young professionals, students, families, etc.**
- **Likely purchase price and rental income of similar properties.**
- **Do the maths stack up?**

Overcoming Hurdles

Bridging Loans are a specialist area of the marketplace and can be an option for people looking to secure short-term funds quickly - albeit it can be a more expensive form of borrowing.

These funds could enable borrowers to help obtain a property (at auction perhaps), or make enhancements to their current property, while waiting for a loan from their mortgage lender or other source to come through.

The Financial Services Authority does not regulate some aspects of Bridging Loans.

YOUR PROPERTY MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE OR ANY OTHER DEBT SECURED ON IT.

Mortgage Calculator

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 2010)

* 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.

Can't Work!

In this period of restraint, echoed by the recent Budget, you may find that you can rely less and less on the State or even your Employer to provide for you should you face difficulties from being unable to work.

Those difficulties can come in many guises, 'an accident', 'long-term sickness', 'a life-threatening illness' or even 'redundancy'.

Understandably, you can't plan for every possibility, but you do need to prioritise where you feel you may need some form of insurance cover.

Protect your biggest investment

Your home is probably your biggest financial investment and one that possibly requires a decent chunk of your salary each month in mortgage payments. So in these uncertain times, an employee (or even those that are self-employed or on a contract) would be well advised to consider taking out **Mortgage Payment Protection Insurance** (MPPI).

MPPI protects your mortgage repayments, generally up to 12 months, if you are unable to work due to accident, sickness or unemployment. With some policies allowing you to also cherry pick which of the above elements you'd like to be included in your cover. Although, the 'unemployment' option would be more problematic for the self-employed and contract workers.

Policies, prices and what they'll payout for will vary, so it makes sense to talk to us to see what's on offer, rather than just opting for what the Lender suggests.

Protect the mortgage and more...

Alternatively, **Income Protection** (also known as Permanent Health Insurance - PHI) is designed to protect all or some of your monthly outgoings. It pays you a monthly income if you are unable to work due to accident or sickness, however long that may be. In extreme circumstances it may be until your normal retirement date.

In some cases, unemployment cover may also be offered as a bolt-on. Although, most companies may only allow cover of up to 24 months for the unemployment element, compared to the main Income Protection policy.

Income Protection is a complex product so it is essential that you take advice. Policies vary considerably with regard to premiums, the delay before payments start (in the event of a claim) and the exact extent of cover.

Alternatively, you may not be able to work for a period of time were you to suffer a life threatening medical condition such as some forms of cancer, stroke or heart attack. In which case if you have **Critical Illness Cover** in place, then you would receive a lump sum payout if your condition is specified in the policy and you survive generally for 30 days from the date of diagnosis.

Again, this cover can also be complicated and can vary widely with regard to the illnesses covered, so advice is vital here too.

Talk to us to find out more, although in the first instance, do check if you are eligible for any employer benefit schemes, to avoid taking up unnecessary insurance cover, and assess what the State may provide too.

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

➔ **(contd from page 1)**

their toe in the property selling market.

Capital Gains Tax (CGT) stays at 18% for basic rate taxpayers, but rises to 28% for higher rate taxpayers, which was actually much lower than initially speculated.

Of course, the increase in VAT from 17.5% to 20% from early January 2011, will have an impact on purchasing.

Elsewhere, there are rumblings from the Financial Services Authority that 'Interest-Only' mortgages may be something that they will look closer at - with some Lenders already requiring more details on how the capital amount will be paid off. In some cases, slightly higher rates are even being applied to 'Interest-Only' against the 'Repayment' option for the same product offering.

The next step

If you decide to take action, then you need to consider if you want the 'certainty of knowing what you'll be paying' through a **Fixed Rate.** Where either a 2-3 year deal or possibly the 5 year+ deals might be for you. Alternatively, you may want to track the Base Rate, for example, through a **Variable Tracker** deal. Remember, even if the Base Rate doesn't rise, it doesn't mean that Lenders won't increase their own Standard Variable Rates!

So have a look at our 'mortgage payments calculator' on page 3, and see how any possible rises may affect you and **talk to us to find out more...**

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:**
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