

# ESSENTIALLY **MORTGAGES**

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Q3 2017 ISSUE 5

**ONE IN SIX DOWNSIZERS  
HAVE SECOND THOUGHTS**

**THE IMPORTANCE OF  
PROTECTING YOUR  
FAMILY'S INCOME**

**KEY STEPS IN BUYING  
YOUR FIRST HOME**

BUY-TO-LET AND  
FIRST-TIME BUYERS –  
ARE THEIR FORTUNES  
CHANGING?

BEWARE OF YOUR  
LENDER'S SVR

FEWER HOME  
MOVES SLOWING  
THE HOUSING  
MARKET

  
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## IN THIS ISSUE

ONE IN SIX DOWNSIZERS HAVE SECOND THOUGHTS	2
IS THE RENTAL PROPERTY MARKET SET TO CHANGE?	3
KEEP YOUR VALUABLES SAFE ON HOLIDAY	3
FEWER HOME MOVERS SLOWING THE HOUSING MARKET	4
KEY STEPS IN BUYING YOUR FIRST HOME	5
BEWARE OF YOUR LENDER'S SVR	5
THE IMPORTANCE OF PROTECTING YOUR FAMILY'S INCOME	6
TO RISE OR NOT TO RISE? THAT IS THE QUESTION	7
INSURANCE FOR LANDLORDS	7
BUY-TO-LET AND FIRST-TIME BUYERS – ARE THEIR FORTUNES CHANGING?	8
SCAMS AND COLD CALLS	8



## ONE IN SIX DOWNSIZERS HAVE SECOND THOUGHTS

People often find themselves considering downsizing as retirement approaches. After all, selling a large family home and buying a smaller property to retire to has its attractions. Maintenance costs are likely to be cheaper, utility bills will be smaller and the cash released can be used to bolster retirement income.

However, a recent study has shown that one in six people who had thought they might downsize, decide not to go through with it. The reasons behind the decision to stay put were the cost of moving, the valuations they received on their existing property and

problems finding the right home to move to.

### Housing market pressures

Many estate agents believe that not enough people are downsizing to smaller properties to free up the thousands of larger homes desperately needed for growing families. They also acknowledge that there is a national shortage of suitably-designed and attractively-priced retirement properties.

However, there may be more to it than that. Moving home at any age can be an emotional wrench; leaving a familiar neighbourhood can mean leaving good friends and neighbours behind, as well as having to change doctors, dentists and other healthcare providers

at a time of life when their services are increasingly relied upon.

Large family homes contain lots of memories and possessions that have often accumulated over many years. Relocating can be a costly and time-consuming business, with stamp duty often mentioned as a contributory factor in the decision not to move.

Buying a £300,000 home would cost £5,000 in stamp duty. The Chartered Institute of Housing and the Royal Institution of Chartered Surveyors have both put forward proposals for a reduction in stamp duty and other financial incentives to make optimum use of the available housing stock.

**MANY ESTATE AGENTS BELIEVE THAT NOT ENOUGH PEOPLE ARE DOWNSIZING TO SMALLER PROPERTIES TO FREE UP THE THOUSANDS OF LARGER HOMES DESPERATELY NEEDED FOR GROWING FAMILIES**

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

**Tax treatment depends on individual circumstances. Tax treatment, rates and allowances are subject to change.**

## IS THE RENTAL PROPERTY MARKET SET TO CHANGE?

The government's housing white paper published in February gave a welcome boost to the rental property sector. Local planning authorities will be expected to include provision for units specifically designed for the rental market in their local plans.

The last two decades have seen a rapid expansion of the private rental sector and it's now estimated to be worth £1.4 trillion. Much of this growth stems from the rise of the buy-to-let landlord, a move that began in 1996.

Demand for rented accommodation is likely to remain strong in the face of high property prices, lack of properties for sale, falling real incomes and rising inflation. All these factors affect the ability of aspiring homeowners to save a sufficient deposit to allow them to set foot on the housing ladder.

However, there is also growing evidence that, like our European counterparts and those living in major cities around the world, more people in the UK are choosing to rent. They value the flexibility to move when it suits them, they have less financial responsibility and don't have to maintain the property.

### Letting fees

Following the government's pledge to ban lettings agents' fees to tenants, agents will no doubt hope to shift the costs to the landlords, which in turn could push up rents. Rents were already likely to rise, as many landlords hit by the new buy-to-let tax regime and stamp duty changes will look to recoup their lost profits from their tenants. Fewer buy-to-let landlords are likely to enter the market, which could mean more properties are bought by ordinary home buyers, reducing the availability of property to rent.

What happens in the economy naturally has a bearing on what tenants can afford to pay, and landlords will need to be mindful of a tenant's ability to pay higher prices. Across the UK, rent accounted for an average of 28% of a tenant's household income before tax; in London it was 31%.

### Market statistics

HomeLet, the lettings reference agency, recently carried out a tenant survey which showed that 46.7% of tenants were currently saving to buy their own home, the largest household type was couples with no children, 72% were happy with their landlord, and 75% were reasonably happy with the response they got to maintenance requests.

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## KEEP YOUR VALUABLES SAFE ON HOLIDAY

Everyone wants to remember their holiday for the right reasons, so here are some tips to help keep your valuables safe.

One of the essentials to have with you is your travel insurance policy. Keep a note of the emergency number you need to call if you have any problems. Make copies of important documents like your passport, visa, driving licence, or medical card and leave them in a safe place. When exploring, work out how much money you think you'll need and leave the rest

behind in the hotel safe. Think about your personal safety and don't take unnecessary risks, especially after dark.

Keep your valuables close and out of sight when in crowds or in queues, as pickpockets are often active in busy places like railway stations and crowded bars.

While travelling, don't keep all your cash and other valuables in one place, divide them between your bags. If you're taking your laptop, you might want to invest in a cable lock to keep it secure in public areas.



# FEWER HOME MOVERS SLOWING THE HOUSING MARKET

There is a new phenomenon which is affecting the housing market, it's a nasty case of the "missing mover" – this is where mortgaged home-owners are choosing not to move up the housing ladder, opting to stay put instead. To put this into context, in the UK, prior to the recession there were 1.6 million home sales every year. This figure fell dramatically to 860,000 in 2009, recovering to around 1.2 million at present. Why the shortfall? Why has this figure not rebounded to pre-recession highs?

New research<sup>1</sup> suggests that these "missing movers" account for about 320,000 of the annual housing transaction shortfall. The research indicates several reasons for the decline in home movers, including the fact that at present there are fewer mortgaged owners than ten years ago. These mortgaged owners tend to be older and therefore much less likely to want to move home. An example of how the effects of an ageing population filter through to the property market; as their desire to move has diminished.

Around 140,000 of these missing moves can be attributed to a fall in the rates of moving among mortgaged home-owners.

The research suggests that the availability of sufficient equity is the number one factor restraining the mortgaged mover rate. In addition to this lack of equity, are the secondary limiting factors – such as the lack of availability of the right home to purchase.

The researchers deduce that it is not the present situation of fewer movers, but the past situation where numbers were inflated, which is the extraordinary circumstance. For over 50 years the property market has undergone changes that provided a massive boost to the ability of people to buy and to own their own homes. An expectation of returning to those conditions is simply unrealistic.

Interestingly, the report concludes that: "The challenges

*of the future must be tackled on the basis of the context in which we find ourselves today. That is one of low interest rates, relatively low inflation, high and rising house prices relative to the incomes of prospective home-owners, and an ageing population. From our analysis, this combination is unlikely to unlock broad-based equity building or provide much scope for more relaxed lending. Perhaps fresh, novel policies will emerge that facilitate more moving in the current much-changed economic environment. However, in their absence we should expect the foreseeable future movement among mortgaged home-owners to remain constrained."*

<sup>1</sup>Council of Mortgage Lenders, 2017

**FOR OVER 50 YEARS THE PROPERTY MARKET HAS UNDERGONE CHANGES THAT PROVIDED A MASSIVE BOOST TO THE ABILITY OF PEOPLE TO BUY AND TO OWN THEIR OWN HOMES. AN EXPECTATION OF RETURNING TO THOSE CONDITIONS IS SIMPLY UNREALISTIC.**



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## KEY STEPS IN BUYING YOUR FIRST HOME

With hundreds of competitive mortgage deals currently available, this could be a good time to get into the housing market.

Making a success of your first property purchase means being well-prepared. You'll have heard how nerve-racking buying a property can be, however working with us will help take a lot of the stress and hassle out of the process. It's a big and expensive decision and we will help you get it right.

You'll need to know what house prices are in the area in which you want to live. We will talk you through the amount of deposit you'll need to get a good mortgage deal. You'll need to budget for costs like surveys, legal fees, stamp duty and expenses associated with moving.

Check your credit score. If it's not as good as it could be, take steps to improve it before you make your mortgage application. We will be able to help you submit your application to the right lender, saving you the headache of approaching lots of lenders and comparing their terms. Once you have an offer in principle, you can start looking for a property.

When you've found somewhere you want to purchase, you'll need to make an offer. If that's accepted, then it's on with the paperwork and there's lots of it. You'll need a survey to find out if the property is structurally sound and a solicitor or conveyancer to carry out the legal work. When you and the seller are ready, contracts are exchanged and you're committed to the deal. That's followed by completion, at which point you can finally call the property your home and move in.

## BEWARE OF YOUR LENDER'S SVR

With interest rates currently low, many borrowers are content to stick with their existing mortgage deal. However, as the monthly mortgage repayment is often a family's major outgoing, it's a good idea to review your mortgage on a regular basis, as you could potentially save yourself money by remortgaging.

### A lender's Standard Variable Rate (SVR)

If your current fixed-rate, tracker or discount deal is about to end or has already ended, it's usually the case that you'll be moved to your lender's Standard Variable Rate (SVR). The SVR is usually pegged to a percentage above the bank base rate and can be subject to change by the lender. So, if you don't do anything, you could be vulnerable to interest rate rises when they come.

However, you could potentially save a substantial amount by moving your mortgage to a more attractive rate, either with your existing lender or to a different lender.

### Many could get a better deal

There are currently around two million people on Standard Variable Rate mortgages who could remortgage and save money and it's estimated that these homeowners could save a massive £10bn a year in interest payments.

You might want to remortgage if your property has increased substantially in value. Remortgaging could also let you release cash from the equity tied up in your home. An increase in value might also enable you to move to a lower rate of interest.

Remortgaging also gives you the chance to change the terms of your loan, allowing you to make higher repayments and so shorten the overall mortgage term. You can also take the opportunity to raise additional cash against the value of your property to carry out home improvements.

### We're here to help

If you're considering remortgaging your property, why not ask us for advice?

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## THE IMPORTANCE OF PROTECTING YOUR FAMILY'S INCOME

It may be a perpetual item on your to-do list, especially if you have a family, but arranging some form of income protection should be a top priority.

Research<sup>1</sup> has shown that parents are more likely to insure their home contents, their phones and the family pet, than they are to have income protection in place for themselves or their partner, leaving many families vulnerable. Don't worry, if you don't have a financial plan in place for your family's future, you certainly aren't alone; the great news is, income protection can be relatively straightforward to arrange.

### Think about your circumstances

There's no time like the present to set aside the pressures of everyday life and put plans in place to protect your family should the worst happen. The first step is carefully quantifying your finances and commitments. We all depend on our monthly salary to pay our outgoings such as mortgage payments, phone bills and child care. If your monthly salary were removed, would your family be able to afford to pay your mortgage and your household bills? If not, you need to assess how much money you would need to cover this shortfall.

One of the most important benefits of an income protection policy is having that peace of mind knowing that if the worst

were to happen, you and your loved ones have everything covered, from your weekly food shop to your utility bills. Without an income protection policy you risk losing everything you have worked for. The strain it would put on the family and yourself could be massive. The end result could be either you returning to work early which could make your health deteriorate or requiring a longer period of sickness after your premature return.

### Getting the right cover

There are many different types of policy on offer, covering different risks that families typically face. They provide numerous levels of cover for varying terms. Deciding which policy to take out on your own can be hard,

so that's why many people ask us for advice on how much cover they need to be adequately protected.

Income protection is a plan which can be custom-built to suit your financial needs with regard to how much it pays out per month to how long the plan covers you for. It can be adjusted to suit anyone's budget. Income protection should be seen as an essential purchase to protect your income and your loved ones.

It makes good financial sense to consider putting protection policies in place that could provide a payout if serious illness were to strike. Don't delay – get in touch today!

<sup>1</sup>Aviva, 2017



# TO RISE OR NOT TO RISE? THAT IS THE QUESTION

The debate continues regarding the next interest rate rise – is it imminent or will we enter 2018 without seeing a move?

Many opinions are being bandied around at present. Mark Carney, Governor of The Bank of England, has recently said that growth will be a factor in future interest rate moves, believing it is still “too early” to make the call. He has been clear in saying that continued growth in the UK economy would eventually lead to higher interest rates, stressing that certain conditions need to be met before he would vote to increase the rate. What is also clear is that any changes to the rate will be linked to both economic activity and Brexit outcomes.

One of the Bank’s deputy governors, Sir Jon Cunliffe, echoes this cautious approach to rate rises, based on slowing consumer spending as households’ incomes are squeezed by higher inflation: *“We expect some of that slowing to be offset by growth in business investment, growth in exports. And I want to see how that plays out.”*

At their last meeting, the Monetary Policy Committee (MPC) voted 5-3 in favour of leaving rates on hold at 0.25%. There was surprise in the City when the Bank’s chief economist, Andy Haldane, commented that he had been close to changing his long-held



‘no change’ stance. The three members who voted for a rate rise hold the collective view that the low unemployment rate will generate pressure for higher wages, and unless policy is tightened soon, there is a risk that a more aggressive stance will have to be adopted later.

The MPC normally has nine members but is currently reduced to eight. In the possible event of a tied vote, the governor would have the deciding vote. With the next meeting scheduled for August, the battle lines are drawn – will we see the first increase in the cost of borrowing since the start of the financial crisis 10 years ago? We wait with bated breath.

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## INSURANCE FOR LANDLORDS

Being a landlord brings big responsibilities, one being to fix any problems that may occur in the property quickly and efficiently. This means dealing with things like broken boilers, burst pipes and broken showers at any time of the day or night.

So, having the right type of insurance cover in place is essential. A standard home buildings and contents policy won’t provide the type of cover that you will need to protect you against a claim made by a tenant, however a landlord policy that includes public liability insurance will. This means that if a tenant injures themselves, or does damage to a neighbouring property, you will be covered. Without it, you could be out of pocket to the tune of thousands of pounds.

Landlord policies typically provide cover for loss or damage caused to the building itself and pay out if it’s damaged by fire or flood. You can also cover malicious damage caused by tenants.

Landlord policies offer varying types of cover, so why not ask us to source the right one for your needs?

# BUY-TO-LET AND FIRST-TIME BUYERS, ARE THEIR FORTUNES CHANGING?

There's growing evidence that buy-to-let landlords are not as active in the housing market as they once were, meaning that young buyers are likely to find it a little easier to get on the housing ladder.

The Council of Mortgage Lenders (CML) reports that lending in March was down 19% on the previous year, at £21.4bn, and attributes the downturn to landlords withdrawing from the lettings market.

## Buy-to-let tax bites

The advent of the new taxes on rental income that started to take effect from April 2017, as well as the introduction of tighter lending controls requiring landlords to demonstrate greater levels of rental cover for borrowing, have served as a disincentive. Estate agents report a significant drop in new property purchases by landlords and more are selling existing rental properties.

The past 20 years have seen an explosion in the market for privately rented homes, with the number of rental properties

more than doubling to more than 5.3 million households today.

The CML reports that buy-to-let activity has been around 42% lower year-on-year and the downward curve in activity began when the additional stamp duty on second homes was introduced in April 2016.

Buy-to-let landlords are clearly considering their options. Some have set up limited companies and transferred their properties into them to escape the higher tax on rental income. Others have increased rents to cover their loss of income tax privileges.

Lenders are also providing help to first-time buyers; more are comfortable lending to those with 5% deposits. According to Moneyfacts, more than 50 lenders are operating in that market, offering over 250 different deals.

If you're a first-time buyer looking for a mortgage, why not contact us for some good advice?

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## SCAMS AND COLD CALLS

Sadly, fraudsters are very inventive and are constantly finding new ways to part people from their money, or deliver malware to their computers.

One of the latest scams doing the rounds, according to Action Fraud UK, is one involving a fake bill from BT. An authentic looking email arrives with an attachment, which if opened will download malware onto the victim's computer. What makes this scam unique is that the malware will start unloading without a webpage being opened. The malware steals personal information such as usernames or passwords and is designed to gain access to bank accounts and steal cash. BT confirms that it will never send an email with an attachment.

## Computer service software fraud

This involves the victim being contacted and told there is a problem with their computer which can be resolved for a fee. The callers have on occasions pretended to be from Microsoft and once they have access to the victim's computer, they install malicious software that gathers personal information. Many of these approaches come via cold call, but recently there has been an increase in contact made via a pop-up on the victim's screen which prompts them to phone the fraudster.

## Cold calls

Some people are reporting cold calls about life insurance. In the last few months, firms have been calling customers with existing life insurance or critical illness cover and offering to cut the cost if they switch their policy. Reports suggest that the companies concerned have failed to tell those they target that while premiums might be cheaper elsewhere, they may lose benefits and end up with a worse deal. Life insurance isn't a one size fits all product and buying on price alone can mean that the cover you receive isn't suitable for your needs. Always take professional advice. Please call us if you're unsure.

***It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK.***