Autumn 2020

Mortgage & Protection news

The newsletter from Informed Financial Advice Ltd

Informed FINANCIAL ADVICE

Lots to Consider

Even in a normal marketplace it makes sense to seek advice for your mortgage and protection needs - and this, of course, isn't a normal marketplace.

For this reason, you may feel confused about identifying the best way forward. With our extensive knowledge of the overall marketplace, this is where we can help.

You may also have concerns, for example, if you've been **furloughed,** are a **first-time buyer,** are **self-employed,** or have taken a **mortgage payment holiday.** Whilst we can't resolve every issue, we're fairly adept at finding solutions.

Although, even in our shoes, it can be hard to keep up. With lenders withdrawing from certain markets, then returning; products that were available at 8am, then unavailable at 8.15am; and so on.

Housing mini-boom

On the upside, the Chancellor recognised early on that the property sector can be the perfect engine to help the economy to recover.

It's partly for this reason that the **Stamp Duty reduction** was introduced (see box item), which could deliver **a saving of up to £15,000** until 1 April 2021, when the previous rates will be reapplied.

If you then add the pent-up demand from the lockdown period, along with a reassessment by many on how they want to live their lives, it helps to create a buoyant property marketplace.

Figures from Rightmove endorse this. Homemovers have put more property on the market, and agreed more sales than in any other month since tracking this data for the last 10 years - worth a record £37bn!

More recently, Nationwide's house price figures set out a 3.7% UK-wide annual growth for August, and a monthly rise of 2%, equating to the highest monthly increase since February 2004. *(Sources: Rightmove, August 2020; Nationwide, September 2020 release)*

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STAMP DUTY

Applicable to a residential property purchase in England and Northern Ireland.

Up to £500,000	**0%**
The next £425,000 *(the portion from £500,001 to £925,000)*	**5%**
The next £575,000 *(the portion from £925,001 to £1.5m)*	**10%**
The remaining amount *(the portion above £1.5m)*	**12%**

■ This is applicable on purchases up to 31 March 2021, and thereafter it reverts to the rates in place prior to 8 July 2020.
■ Add a 3% surcharge to the above for those buying an 'additional' property.
(Source: GOV.UK, 8 July 2020)

HM Revenue & Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

Informed Financial Advice Ltd
Bellcrest House, 114 Battle Road
St Leonards on Sea
East Sussex TN37 7AG

Tel: 01424 434045
Email: office@informedfa.co.uk
Twitter: www.twitter.com/informed_fa
Web: www.informedfa.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.**

■ Informed Financial Advice 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.

Lots to Consider (contd)

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What does it mean for you?

The positive developments above need to be balanced by what may be ahead. We can't lose sight that we're in a recession, and there will be further job losses as the furlough scheme stops in October. Plus, as the mortgage payment holiday initiative nears an end, this too may bring problems. These events are likely to have an impact on the property marketplace. Also, no-one quite knows how COVID-19 will play out.

However, it's not as if the government and lenders aren't aware of the issues and both are keen to deliver support.

With regard to what's on offer from lenders, there are still some **excellent mortgage deals** out there. The lower the percentage of loan that you need, the greater the likelihood that there will be a wider range of products on offer, a decent rate and the possibility of being accepted for a loan.

BUT - rates are starting to creep up.*

AND - the strict rules applicable to 'evidencing of income' and 'affordability' still apply across the board.

*(Source: *Moneyfacts, 7 September 2020 release)*

Other positive initiatives

In addition to the colossal amount of money that the government has pumped in to help us through this crisis, there are additional initiatives that would also be of interest to existing and potential homeowners.

The government intends to **make the planning process easier** for those that might want to add, for example, additional space above their current home, subject to neighbour consultation. Additionally, it wants to deliver greater freedom to adapt the use of vacant buildings and land in town centres to create new residential properties.

The smaller renovation projects may be easily covered from existing savings, or even money saved from not going on an overseas holiday! For the bigger projects, then talk to us about a mortgage or remortgage to help raise the funds needed.

Finally, from the end of September, you can apply for government vouchers under the **Green Homes Grant.** Against certain criteria, this will provide £2 for every £1 homeowners and landlords spend to make their homes more energy efficient, up to £5,000 per household. Or, in the case of those on the lowest incomes - up to £10,000. It's applicable in England - but similar schemes may exist elsewhere in the UK.

Do get in touch to see how we can help. You may have to pay an early repayment charge to your existing lender if you remortgage.

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UPDATE... Furloughed Workers

■ In total, around 9.6m jobs were furloughed. By September, this number had reduced to around 4m.

(Sources: GOV.UK, August 2020, Office for National Statistics, September 2020)

■ From 1st July, furloughed workers were able to return to work part-time, with the employer paying for the days worked, and the furlough scheme covering the rest. That said, until the end of October - the furloughed worker could receive 80% of their wages up to the capped monthly figure of £2,500, if furloughed 100% of the time.

■ From August, employers were asked to pay NI and employer pension contributions.

■ In September the level of contribution changed. HMRC reduced its payment to 70% of wages for the hours the employee does not work (with employers contributing the 10% difference).

■ In October, this scenario will reduce to 60% of wages, with employers paying 20%.

■ After the planned ending of the scheme in October, the government has created a **Job Retention Bonus** to help ensure as many furloughed workers as possible return to (and remain in) the workplace. This will provide a one-off bonus of £1,000 for the business. It would apply to each furloughed employee (who's paid over £520/month) that's still employed as of 31 January 2021.

FUTURE MORTGAGE ISSUES

■ For those that have been on furlough, different lenders have set different criteria with regard to assessing income and affordability.

■ Some may want the employer to top up the salary to qualify, or may restrict the loan-to-value offered to around 85%.

■ Others may want to see a fixed 'return to work' date.

In short, it's a complex situation, but options may well exist with lenders who are happy that you meet their criteria.

So do talk to us and let us do the legwork for you.

Screen Time!

We can provide advice on both your **mortgage** and **insurance** requirements in a way that best meets your needs - by phone, email, videoconferencing or possibly a socially-distanced meeting.

» One key piece of advice - unless there are mitigating circumstances - is not to sit on your lender's Standard Variable Rate (SVR) once you come to the end of your deal period. As the chart below shows, you'll be paying around twice as much in interest!

Average Fixed Rates vs. Standard Variable Rate (SVR)

	7 September 2020
2-year fixed rate	2.24%
5-year fixed rate	2.50%
SVR	4.44%

(Source: Moneyfacts, 7 September 2020)

Naturally, there are fees to pay with a new deal, so you need to do the maths. Our discussions would also cover issues such as the merits of a fixed vs. tracker mortgage, and the length of the mortgage deal, such as the 2 or 5-year plans above.

The process

Of course, you can undertake this yourself. However, you don't want to make too many unnecessary applications, which may have a negative impact on your credit rating.

That's why it makes sense to ask us to assess the wider marketplace in light of what we've established with regard to your financial position and particular needs.

Also, we'd endeavour to help reduce the hassle of filling out forms. Plus hold your hand throughout the process, and liaise with the various parties along the way.

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 a suitable product for you.

What if life goes wrong?

The current challenging times may well have focused your thoughts on having some **protection insurance** in place.

This could be **life cover** to deliver a lump sum to your family, if the insured person dies. Or insuring yourself against suffering a **critical illness,** or being **off work long-term** due to illness or injury.

Already have cover in place?

Even here it's worth having a conversation (if it's not a policy that we've recently set up), as there's been so much innovation over the last few years. With many policies now fully recognising mental health issues, plus lots of value-added benefits, such as medical advice and fitness support.

Also, as a consequence of the current crisis, you may even be thinking about saving money and cancelling a policy. This could then prove to be more expensive, with more caveats, and an age weighting, should you return to start a new one with the same insurer. The insurers are mindful of this and some will allow you to stop paying premiums for an agreed period, with certain rules.

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

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A record **98.3%** of all **PROTECTION CLAIMS** are met

- equating to a sizeable **£15.8m a day** in payouts,
and how that plays out for the key sectors are as follows:

LIFE COVER	CRITICAL ILLNESS	INCOME PROTECTION
■ 99.6% of all Life claims ■ Average payout of: £77,535 (term) £3,465 (whole of life)	■ 91.6% of all Critical Illness claims ■ Average payout of £67,573	■ 87.2% of all Income Protection claims ■ Average payout of £17,729

(Source: Association of British Insurers, 2019 data, May 2020 release)

UPDATE...
Mortgage Payment Holidays

■ Around 2m mortgage customers (including buy-to-let borrowers) have taken a mortgage payment holiday*, and for those that haven't, they may be able to apply for one up to the 31 October 2020.

■ However, whilst it shouldn't affect your credit rating, do consider if it's the most suitable route forward for you:
(i) As it's not so much a 'holiday', but more a mortgage payment 'deferment'.
(ii) You need to agree this with your mortgage lender, so you can't just stop making payments.
(iii) Lenders may ask if you participated and may factor that into future loan applications.

THE FUTURE

■ Whilst over 70%* of participants have returned to making full mortgage payments, the Financial Conduct Authority recognises that some may require further help and has asked lenders to deliver structured payment plans.

■ However, this support will come at a price, including being flagged on your credit file.

*(Source: *UK Finance, August 2020)*

LANDLORDS have proved to be a fairly resilient group, and may have built up a greater resolve than most to face the current recession.

» As it stands, in this strange property market, the average monthly rental income across the UK is still holding up at £985, up 1.5% year on year. In fact, 11 of the 12 regions all showed an increase, with the exception of Greater London - albeit the average rental value there was £1,653 - 100% higher than the figure for the rest of the UK (£825). *(Source: HomeLet Rental Index, August 2020)*

Financial stability of tenants

The main concern for landlords into the near future will be hoping those rental payments continue to come through, as there's the likelihood that some tenants will fall on hard times as the furlough scheme comes to an end, raising the possibility of void periods.

However, it's not just a case of 'sit and wait', as there are a number of initiatives landlords could undertake to help recession-proof their business.

Time to remortgage?

Buy-to-Let **mortgage rates remain low** although - as with the residential sector - rates are starting to creep up. So, if you haven't already assessed what's on offer, perhaps it's time to take stock. Dependent on the deal you're on, there may be savings to be made. *(Source: Moneyfacts, 8 September 2020)*

Alternatively, you may want to consider pooling together your properties into one mortgage, but do be aware there are benefits and disadvantages of this course of action. The same can be said about considering a **Limited Company** structure to help mitigate the tax changes. As well as talking to your accountant about these issues, do get in touch with us, as we can look at your particular situation and help identify what may work best for you.

Make new investments, and/or restructure

Landlords will also benefit from the short-term reduction in **Stamp Duty** fees. As was the case previously, the 3% surcharge still needs to added, but the current charges could deliver a substantial saving on a property purchase ahead of 1 April 2021.

With regard to purchasing additional properties, the normal disciplines apply, such as:

- don't buy a property that you'd like to live in yourself. You need to **love the deal, not the property.**
- research the area and **understand market conditions.**
- decide on the **type of renter you want.** Properties that can be let, for example, to **multiple tenants,** such as Houses in Multiple Occupation (HMOs) could help to spread the risk of any rental voids, as you'll receive an income from various people.
- shying away from **student rents,** in the current climate, and possibly being drawn to a slightly different form of renting - **holiday lets.** The rise of the 'staycation' will increase the demand for this type of property. But again, talk to us, as this is a different form of borrowing compared to the normal buy-to-let loan process.

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 Conduct Authority does not regulate legal and taxation advice, and most Buy-to-Let mortgages.
HM Revenue & Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.
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: 01424 434045 Email: office@informedfa.co.uk
Twitter: www.twitter.com/informed_fa Web: www.informedfa.co.uk