Spring 2016

Mortgage & Protection news

The newsletter from Envision Financial Solutions

Envision Financial Solutions

Time to Make Plans

Should you be assessing both your borrowing and protection needs?

» As you may know, there are currently some decent mortgage deals on offer. Added to this, there have been various government initiatives designed to help stimulate the property market, such as increased efforts to build more homes, relaxation on some planning laws, further support for the first-time buyer, and changes to Stamp Duty (albeit not for the best for landlords).

As for property prices, there are still wide regional variations, but prices have been rising, although at a fairly moderate rate, with Halifax (in Dec. 2015) forecasting a 4-6% increase across 2016. Understandably, price rises will not be good for everyone.

The economy too is in slightly better shape, although not improving as much as expected following the March 2016 Budget announcements.

Take control of your destiny

So, irrespective of whenever the first Bank Rate interest rise will come, surely it makes sense to be pro-active. This means that you can then make plans at a time that suits you, rather than being driven by external influences. For example, you may already be keen to achieve some of the following:

- Undertake much-needed renovations to your current home.
- Decide that now's the time to climb up the property ladder (or perhaps downsize).
- Seek out a better mortgage deal than the one you're currently on.
- Buy your first home, and take advantage of some of the schemes on offer.
- Conversely, you may look to expand your property portfolio, either through becoming a landlord, or simply want that holiday home you've always dreamed of (see page 3 for more about this).

We're here for you

Whatever you want to achieve, we can endeavour to help. With tighter lending regulations making it harder to borrow (and more rules since 21 March 2016), it makes even more sense to take advice to gauge what may work for you across the wider marketplace.

In fact, that's possibly why it's no surprise that in a 2015 survey, 78% of mortgages now go through intermediaries (such as us) - a sizeable jump from 56% in 2014.

(Source: IRESS Mortgage Efficiency survey, October 2015)

If you'd like to hear more about how we could assist with your borrowing needs, along with ways to protect you (and your family), then please get in touch.

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

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

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Protect YOUR INCOME

Did you know that each year, **one million workers** suddenly find themselves unable to work due to serious illness or injury?
(Source: Association of British Insurers, Welfare Reform for the 21st Century, September 2014)

» We insure our cars, homes, mobiles and pets against accident or damage, but do enough of us protect our income, should we be unable to work for any length of time due to an injury or illness?

Surely a lengthy period off work would be a concern for any household? Yet worryingly, more than one in five (23%) Brits with savings, say they wouldn't last longer than a couple of months if they were unable to work, yet less than one in 20 protect their income!

(Source: Scottish Widows, November 2015 release)

Of course, you might find that you're eligible for state benefits, of limited value. Also, your employer may pay you for a period of time, but how long will that last, and will that be enough?

Works when you can't

So it makes sense to have a back-up plan to help top-up any payments you may receive from elsewhere.

One route is to take out some **Income Protection** insurance. This is designed to pay out a tax-free monthly sum in the event that you are unable to work due to illness or injury. In short, it works when you can't!

It pays out until you can start working again, or, in some cases, until you retire. Each policy will have different conditions, such as not being able to work in 'your own occupation', or 'any occupation', and you would obviously need to disclose any pre-existing medical issues.

Once you've got an idea of what income you may need, you can then decide when you'd like your plan to kick-in (called the deferred period). The longer you wait, the cheaper the premium will be. And do be sensible about how much you require (up to a maximum amount) until you're able to return to work. Again, the less you need, the lower the premium.

Over 90% of claims are paid out

In the latest set of statistics, 93% of all 'Individual Income Protection' claims were paid out in 2014. The average payout covered almost a four-year period and amounted to about £39,000.

(Source: Association of British Insurers, August 2015 release)

The payout statistics show that whilst policyholders might need funds for a considerable period of time, they are generally not opting for life-changing amounts, but simply enough to see them through until they're able to work again.

So, although you may still think: *'it'll never happen to me'*, do remember that life's unpredictable, and surely it's better: *'to have something and not need it, than to need something and not have it'!*

Please get in touch if you'd like to find out more.

If you take out an income protection policy and stop paying premiums you won't get any money back and you'll no longer be covered.

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

Helping the First-Time Buyer

The Help-to-Buy schemes have now enabled over 150,000 people to buy their own home, with 95% of all completions taking place outside of London, and 80% of the take-up coming from first-time buyers. *(Source: gov.uk, Help-to-Buy, March 2016)*

In the Autumn Statement, the Chancellor said that: *"people buying a home to let should not be squeezing out families who can't afford a home to buy"*, and put in place further initiatives, such as:

- Doubling the housing budget to £2bn a year, in order to build 400,000 affordable homes by the end of the decade.
- Included within this would be payments to developers to build starter homes for first-time buyers, who will get a 20% discount on property worth up to £450,000 in London, and up to £250,000 elsewhere.
- In England, the current restrictions on who can buy a home through the Help-to-Buy shared ownership scheme will be removed from April 2016.
- The parameters of the Help-to-Buy Equity Loan scheme will be enhanced for Greater London increasing the upper limit of the government's loan from 20% to 40%. *(Source: gov.uk, November 2015)*

These are just some of the proposals that will come in from 2016 and, of course, various terms and conditions will apply. However, it demonstrates that improved options do exist for the first-time buyer (across the whole country), and as part of that process we can help identify the most suitable mortgage loan for your needs.

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

Buy-to-Let news

The continued growth of Buy-to-Let has meant that it now represents over **one in seven** of all outstanding mortgage lending. *(Source: Council of Mortgage Lenders, May 2015 release)*

» To some extent, the sector has now become the victim of its own success, with both the government and regulatory bodies seeking to apply more control.

In one respect, the buy-to-let market is viewed as a decent revenue source for the government's coffers. At the same time it's seen by the Bank of England to be more likely to be cyclical in nature, which it feels could impact upon a measured recovery in the economy.

Stamp Duty changes

The Chancellor announced last November that, from April 2016, purchases of buy-to-let properties (and second homes) would attract an additional 3% stamp duty above the current banded levels. There had been speculation that those owning 15 or more properties would avoid the surcharge, but it was confirmed in the March 2016 Budget that there would be 'no exemptions'.

Additionally, the Budget contained a further blow for private landlords, as the reduction in Capital Gains Tax from 6 April 2016 does not extend to buy-to-lets (or second homes).

New European rules

Elsewhere, there is a new EU initiative (Mortgage Credit Directive) - which has been in place since 21 March 2016 - and relates to a differentiation of 'consumer' and 'business' buy-to-let. The former (which may well represent around 11% of the marketplace*) will be affected by the new rules, which are designed to protect the borrower. *(Source: *HM Treasury, January 2015)*

Examples of consumer buy-to-let include when the property has been inherited and either the borrower or a relation has occupied the home, or where the borrower is unable to sell the property and decides to rent it out instead.

What it means

Together with the tax proposals (see right) it's vital that both existing and potential landlords do their homework.

However, what won't be lost on them is the continued demand from those that struggle (or are unable) to raise a deposit to enable a property purchase. Or the fact that we're not building enough homes, swiftly enough, to meet demand.

So it will be interesting to see if the current initiatives put any dent in the projections that the private rented sector will grow from around 20% of all homes to about 35% by 2032. *(Source: Intermediary Mortgage Lenders Association, May 2014 report)*

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.

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

Tax changes

Higher tax burdens for Buy-to-Let landlords are being phased in from April 2017 - with the full impact being felt by 2020. Currently, landlords are able to offset their mortgage interest and other finance costs against the property income, thereby reducing their tax liability. Those on higher tax rates are able to receive relief at their marginal rates of 40% or 45%.

By 2020 the government's plan is to restrict relief to the basic rate of income tax (20%) for all individual landlords.

Some basic rate taxpayers may also be hit, as the change might push them into the higher-rate tax bracket.

Example scenario

For a 40% taxpayer whose buy-to-let property earns £20,000 a year, against the annual cost of £13,000 for an interest-only mortgage, the current tax paid will be 40% of £7,000. A tax bill of £2,800. Assuming the same scenario in 2020, then it's 40% of £20,000, less 20% of £13,000, resulting in a tax bill of £5,400.

Some options

First off, there's always a chance that the proposals may be watered down.

Second, remember that buy-to-let has generally proved to be a popular tax-efficient investment, delivering steady income and capital growth.

Third, think about remortgaging onto a better deal, or look for the best possible deal if just starting up. Do talk to us regarding this.

Thereafter, it makes sense to also liaise with your accountant, as there are numerous routes to consider - such as limited company status, looking for alternative ways to rent your property, and, of course, there's the option to raise rents, to help make up any shortfall.

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

THINK? outside the box

Did you know that there are other borrowing options out there - such as **Secured Loans?**

» If you're looking to undertake some home improvements, but feel that for the level of funding required, remortgaging isn't the most suitable route, then a Secured Loan may work for you. It is an increasingly popular option for assisting this need, along with meeting other borrowing requirements.

In the secured loans sector the average amount borrowed sits at around £58,500, and the enthusiasm for this marketplace continues to grow, with lending in November 2015 exceeding £86m. If this growth pattern continues, then it won't be long before the annual lending hits £1bn+.

(Source: Enterprise Finance, Secured Loans Index, January 2016)

Over the years, the processes for the mortgage and secured loan marketplaces have been different, however, one of the factors behind the growth secured loans has been enjoying was the looming implementation date for the Mortgage Credit Directive on 21 March 2016. This now brings the secured loans sector onto a similar footing as standard mortgage loans.

Whilst this may limit some lending flexibility for secured loans, at the same time it opens up new avenues for the sector. So it's likely that you'll be hearing a lot more about this form of borrowing over the coming months.

Situations where a Secured Loan may help...

■ A large number of mortgage borrowers are deemed *Mortgage Prisoners,* who may find it difficult to remortgage (particularly if they want to increase the amount borrowed).

■ Some mortgage borrowers may be sitting on an interest-only product, where remortgaging could require them to revert to a standard repayment loan (which may cost them more each month, even if they secure a better interest rate deal, as part of the capital needs to be paid off too).

■ Other mortgage borrowers may simply not want to jeopardise the current deal they're sitting on.

■ Or some may want to consolidate their debts. Although, taking out a longer term loan such as this may mean that the borrower ends up paying more in interest payments, than if they paid off any credit or storecard amounts over a shorter term. But as the repayments for a secured loan are set over an agreed timeframe, it does provide a disciplined way to pay off borrowings.

Secured Loans explained...

It is designed for homeowners who can use part of the equity in their property to secure a loan that would sit as a second charge on top of their mortgage, which may be with a different lender.

The next step

As the interest rate on a secured loan tends to be higher than an average mortgage one, we need to do the maths to see how it equates against the alternatives.

Talk to us to find out more.

'Secured loans' may now be known as 'subsequent mortgages' or 'second charge mortgages'.

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.

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

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