



Independent Limited

Park House, Ffordd Byrnwr Gwair, Broncoed Business Park, Mold, Flintshire, CH7 1FQ

T: 01352 754272

E: info@dandgifa.co.uk

www.dandgifa.co.uk

Your Window on

Home Finance

AUTUMN 2018



Introducing our New Mortgage and Protection Adviser

We are pleased to introduce Dave McGeough, our new Mortgage and Protection Adviser.

Dave has joined D&G Independent from Barclays, where he worked in a customer-facing role in branches across North East Wales for over seven years. Originally from Dublin, he was hailed the youngest Credit Union Manager in Ireland before moving to North Wales with his family. A qualified CeMAP mortgage adviser and protection specialist, Dave will spend most of his time visiting clients throughout North Wales, Cheshire and Shropshire.

Commenting on his new role, Dave said, "I am delighted to be joining D&G Independent at a time of expansion. Darren and Gary share a very exciting vision for the future and I am pleased to be playing a role in the company's next chapter. As I have always been focused on the needs of my customers, the company's independence

attracted me to the role. By accessing the whole of the market, I can add greater value to the relationships I develop with both new and existing clients."

Commenting on the expansion of his team, D&G Independent's Principal Mortgage Adviser, Pete Chappell said, "The demand for credible, reliable and wholly independent financial advice has been increasing in this region for some time. As whole of market mortgage advisers, we aim to identify the best possible deal for our customers and I am pleased that Dave's arrival will ensure we fulfil the needs of our growing client base. Dave enjoyed much success during his time at Barclays and I am confident he will become a strong member of our team."

Dave is a fully qualified mortgage adviser with access to whole of market mortgage deals. He can be contacted directly on 01352 754 272.



Eight out of 10 mortgage holders don't have income protection

Having a mortgage is a huge responsibility, especially when you consider the amount of money you will have to repay over the coming years. However, as we all know, life can have its ups and downs.

That's why financial experts always recommend that if you have a mortgage, you should also have some insurance protection in place that would provide an income or pay out a lump sum in the event of an illness, accident or death.

According to a recent survey amongst mortgage holders, 42% don't have a life insurance policy in place, 71% have no critical illness cover, and 81% don't have any income protection in place².

Inertia plays a part in these findings: 20% of full-time working people questioned for the survey recognised that they would benefit from having insurance protection in place, but hadn't got around to arranging it.

We will be able to recommend a policy that's cost-effective and provides the right type and level of cover for your circumstances. If you'd like some advice, get in touch.

²Royal London, State of the Protection Nation, 2018

As a mortgage is secured against your home or property, it could be repossessed if you do not keep up mortgage repayments

INSIDE THIS ISSUE:

In the News // How interest-only mortgages have evolved // Help is on its way for leaseholders wanting to buy freehold // Why bad maths could cost you a fortune // First-time buyers need 13 times their salary to buy a home // Buy-to-let - what does the future hold? // The Living Standards Audit 2018 // Equity release rises towards £1bn in single quarter.



How interest-only mortgages have evolved



1.67M OR 17% OF BORROWERS HAVE INTEREST-ONLY MORTGAGES

The Financial Conduct Authority has again expressed concern that a number of borrowers with this type of mortgage might struggle to pay back the capital, and is urging them to take professional advice on their repayment options.

Research has shown that 41%³ of over 65-year-olds in the UK with an outstanding mortgage have an interest-only mortgage.

NUMBER OF FIRST-TIME BUYERS REACHES HIGHEST LEVEL IN A DECADE

First-time buyers now make up over half of the market, accounting for 51% of mortgage-financed purchases, reaching the highest level in a decade⁴. However, the average age is now 31, two years higher than it was a decade ago.

PEOPLE MUST STRESS-TEST FINANCES AFTER RATE HIKE

The recent rise in interest rates, although small by historic standards, is likely to result in additional pressure on household finances. The advice from experts is that it makes sense to review your budget from time to time, and ensure you have sufficient money saved to cover emergency spending needs.

³More 2 Life, 2017

⁴Halifax, 2018

Before the financial crisis in 2008, many borrowers opted for an interest-only mortgage. This was a cheaper option for them, as they only paid interest each month. Borrowers were expected to have adequate plans in place to repay the capital at the end of the mortgage term, as was the original intention with endowment mortgages. Lending wasn't as tightly controlled at that time, and it subsequently became clear to the government and the regulators that some of these loans were at risk, as borrowers didn't actually have sufficient resources to repay the capital when it became due.

Changes in affordability criteria

Lenders have become increasingly aware that some people with interest-only mortgages that are due to mature over the next few years are likely to face difficulties. They are engaging with them and providing information on alternatives such as repayment or lifetime mortgages (a form of equity release) in order to avoid the risk of borrowers defaulting and having to sell their property in order to repay the loan.

In 2014, the Financial Conduct Authority's Mortgage Market Review introduced

new criteria on lending risk and mortgage affordability. As borrowers were now subjected to more rigorous checks, interest-only mortgages became much rarer.

More lenders returning to the market

Several mortgage lenders are now offering interest-only mortgages, taking the view that there is nothing wrong with the concept, as long as the borrower can show that their application is backed up by clear plans to repay the capital. Borrowers who are likely to be granted this type of mortgage are older, with larger deposits and higher incomes, with assets available to repay the loan.

If you would like to know more about interest-only mortgages, or are considering your repayment options on an existing interest-only mortgage, get in touch.

As a mortgage is secured against your home or property, it could be repossessed if you do not keep up mortgage repayments.

Think carefully before securing other debts against your home. Equity released from your home will be secured against it. Your home may be repossessed if you do not keep up repayments.

Help is on its way for leaseholders wanting to buy freehold

The government estimate that there are 4.2m leasehold residential properties (one-third houses and two-thirds flats) in England, and around half of these are on leases with less than 80 years remaining. Ground rents average £370 per year.

Last year, the-then Communities Secretary, Sajid Javid asked the Law Commission to look at ways of making buying out a leasehold to gain the freehold easier, faster and cheaper. This was in response to a rising tide of public concern about the high prices some homeowners were being charged and the rates at which some ground rents could escalate.

One of the proposals that it has put forward is to introduce a simple formula that would mean eligible leaseholders would pay just ten times their current ground rent, or 10% of the value of the property, to convert their property from leasehold to freehold. It also proposes removing the current requirement that leaseholders must own the lease on their property for a minimum of two years before they can buy their freehold.

The consultation on this complex area of property law is ongoing, and any new rules are unlikely to come into force before next year.



...a rising tide of public concern about the high prices some homeowners were being charged and the rates at which some ground rents could escalate.

Why bad maths could cost you a fortune

How much are your possessions worth? Having enough insurance is almost as important as having insurance in the first place. When it comes to applying for a policy, it's important to provide the right figures, as getting them wrong could have serious consequences. "Guesstimating" the value of your household contents could leave you under insured and out of pocket.

Under-insurance can be a big problem if you make a claim, as your insurance company may not pay out the full cost to replace lost, stolen or damaged items. So, if you only paid for £25,000 of home contents cover, but the total value of your home contents is £50,000, any claim you make, even for a single item included at the correct value, could be scaled-down pro rata.

Whilst the Financial Ombudsman has commented that consumers are *"unlikely to be experienced in calculating such costs"*, it is in the interests of the policyholder to ensure that the figure they choose to insure for is sufficient.



First-time buyers need 13 times their salary to buy a home

Despite signs that the housing market is slowing down, especially in London, house prices have remained high due to the shortage of supply. This has meant that affordability has continued to be a major issue, especially in the south of the country.

Figures from the Office for National Statistics show that first-time buyers in London need to spend 13 times their earnings (based on full-time median gross salary) to get on the housing ladder, whilst in the North East the figure is five-and-a-half times earnings.

Buy-to-let – what does the future hold?

Buy-to-let landlords could be said to be facing hard times. They are set to find their income tax relief on mortgage interest restricted to 20% by 2020, and have been hit by higher Stamp Duty (and equivalent taxes in Wales and Scotland), combined with the recent rise in interest rates.

Buy-to-let mortgage completions fell by more than 11% year on year to June⁵, as the new tax rules continued to bite. Many landlords are considering re-mortgaging rather than taking out loans for new property purchases.

More landlords are setting up as limited companies; 18% of private rentals in England are now owned by limited companies.

New licensing requirements

With many councils now introducing licensing schemes for private landlords, (over 70 have already gone down that route) more landlords will be required to hold a licence from the local authority where the property is located. In addition, the criteria for Houses in Multiple Occupation (HMOs) will be broadened from October this year. Any property occupied by five or more people from two or more households will be considered an HMO. This brings additional fire, gas and safety obligations.



A ban on letting fees

In 2019, the proposed ban on residential letting fees for tenants is expected to come into force (Scotland introduced a ban in 2012). Whilst tenants will still be expected to pay rent, security deposits and holding deposits, default charges and fees to vary or terminate their lease, no other fees will be allowed. This could see letting agents passing on costs for reference checks or application processing to landlords.

There are also proposals being discussed to introduce compulsory three-year contracts for residential lets in England. These would include a break clause which would allow tenants to end their agreement earlier if they wish to.

⁵UK Finance, Aug 2018

THE LIVING STANDARDS AUDIT 2018

This survey carried out annually by the Resolution Foundation shows that a combination of Brexit and continued austerity is imposing a serious squeeze on living standards in the UK, its authors conclude.

The think-tank, focused on the living standards of low and middle-income families, believes that incomes began stagnating in the years before the 2008 crisis, following exceptionally strong growth in the late 2000s.

It believes that rising housing costs, a fall in hours for low-skilled workers, a slowdown in benefit increases and a larger share of incomes going to the top 1% of earners have all been contributory factors.

EQUITY RELEASE RISES TOWARDS £1BN IN SINGLE QUARTER

Many people in retirement can find themselves owning a valuable family home but only having a small income to live on. An equity release plan allows you to turn some of the capital value of your home into tax-free cash, without having to sell up and move away.

Figures from industry body, the Equity Release Council show that in the second quarter of 2018, homeowners aged over 55 unlocked £971m of wealth from their homes⁶. Three in five new customers chose drawdown lifetime mortgages, which give them the facility to take their cash in stages.

Equity release isn't right for everyone, and professional advice is essential. As it will have an impact on the amount of inheritance you leave to your family, it's a good idea to talk it over with them before going ahead.

Think carefully before securing other debts against your home. Equity released from your home will be secured against it. Your home may be repossessed if you do not keep up repayments.

⁶Equity Release Council, July 2018

It is important to take professional advice before making any decision relating to your personal finances. Information within this newsletter is based on our current understanding of taxation and can be subject to change in future. It does not provide individual tailored advice and is for guidance only. Some rules may vary in different parts of the UK; please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from, taxation are those currently applying or proposed and are subject to change. The information contained within this newsletter is for information only purposes and does not constitute financial advice. The Financial Conduct Authority does not regulate Commercial Buy-to-Let mortgages.

**IF YOU WOULD
LIKE ADVICE OR
INFORMATION ON
ANY OF THE AREAS
HIGHLIGHTED
IN THIS NEWSLETTER,
PLEASE GET IN TOUCH.**

