

the mortgage

The bulletin from Gascoigne Halman Financial Services Ltd



INDEPENDENT FINANCIAL ADVICE

Opportunities ahead

The general view is that it's getting better out there.

» The last year or so has been a tough one for many. Although, for a sizeable number - who are in employment and enjoying lower interest rates on their mortgage loan - they may feel that it's left more money in their pocket than usual.

Much has been done though, to try to improve the financial climate. According to the National Audit Office, the government's response to the crisis shows that the purchases of shares by the public sector, together with offers of guarantees, insurance and loans made to banks has reached £850bn! (that's around £33,000 per household!!). Albeit they do expect about 95% of this amount to eventually be returned to the government's coffers.

(Source: National Audit Office, December 2009)

Improving LTVs

Across the last year or so, mortgages have not been as easily accessible as they have been in the past due to less products being available, removal of the higher Loan-to-Values (LTVs) and a more stringent lending criteria.

However, in recent times, there have been improvements, with more mortgage products coming back to the market, and an increasing number with higher LTVs - opening up the opportunity for borrowing to a wider range of people, including first-time buyers. *(Source: Moneyfacts, January 2010)*

House prices too, have seen a recovery of sorts, with 2009 actually ending up 5.9% above 2008 - something that most commentators did not expect at the start of 2009. *(Source: Nationwide, December 2009)*

Rising interest rate?

With this state of flux, it makes sense to take advice to see how you can meet your borrowing needs in 2010. In some cases, 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.

Of course, the general view is that interest rates may not move too much in 2010, but that ignores the possible effect of quantitative easing (QE) on the economy. As at 14 January 2010, the Bank of England has pumped around £195bn into the economy as part of their QE programme. QE is designed to help kick-start the economy, but as it's an untested science,

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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.**

■ Gascoigne Halman Financial 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.**

If you have sufficient equity in your property and can meet the income criteria, then the following may be a route for you.

1. Raise some capital

Remortgaging may be a solution if you need money to improve or renovate your home. Or maybe you need to fund the purchase of a holiday home, the cost of a wedding or to pay ongoing school fees.

If you only require a small amount, a **Secured Loan** may be a better option. As remortgaging can incur extra costs, which may not be cost-effective for a smaller sum. But remember that either route means using your home as collateral, so don't take on more debt than you can service.

2. Tidy up your finances

If you have built up your balances on credit and storecards, you may be able to reduce your overall debt burden by moving the monies owed into one mortgage, since mortgages may offer the most competitive interest rates. But you need to check whether this will be cost-effective for you, as placing your debts into a mortgage may mean that you end up paying more over the entire term than you would with your existing debt.

3. Find a more suitable mortgage deal

You may want to consider an alternative mortgage deal, as you feel there may be better offers out there for you. Or maybe, you're coming towards the end of your existing loan offer period, and want to check out other options in light of any possible interest rate rises.

If you need some financial spring cleaning, do give us a call.

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

The Financial Services Authority does not regulate Secured Loans.

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.



Spring Clean your finances



Someone on average earnings in 2009 could afford the average first-time buyer property in 39% of local authority districts, against just 6% in 2007. *(Source: Halifax, 2009 First-Time Buyer Review, released January 2010)*

My first home

Here are some options for first-time buyers

The Bank of Mum & Dad

Many first-time buyers receive help from their parents. At the most basic level, parents could 'gift' money to the first-time buyer. Alternatively, they could set up a 'family' offset mortgage, where parents can put their savings against their child's mortgage payments, thereby reducing the monthly payment - whilst still having access to their cash.

Another route would be to take out a 'Guarantor' mortgage. This involves taking the parents' income into account when deciding how much to lend. But there are risks, for example, if the child

stopped paying the mortgage, the parent(s) - as guarantor - would be liable for the payments and their own home may be at risk, if it's been used as security against the loan.

Shared ownership

Subject to certain eligibility criteria, there are now a number of schemes out there where a first-time buyer may be able to purchase a proportion of a home - broadly 25-75%. The developer or the housing association that manages it will own the rest.

The first-time buyer benefits from generally requiring little or no deposit, and has a smaller mortgage to initially fund. Added to this, they'll normally also

pay rent on the percentage of the property they don't own. The objective is that the first-time buyer can increase their share in the property over time, albeit generally at the prevalent market value.

Rules vary on each scheme, so do make sure it's suitable and affordable for your own situation.

Share with others

If you can find like-minded friends or siblings, and get the ground (and exit) rules agreed at the outset, this too may be an option to help get you onto the property ladder.

These options may deliver an excellent solution for getting onto the property ladder - but all of them may raise complex issues - so do contact us first.

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

Protect the Family...

Life is complicated enough in the current climate, if you're healthy and have a regular income - imagine what it might be like if you had the additional financial and emotional problems that death, a major illness or long-term injury may bring.

» That's why it's important to try to protect yourself against these events - and it might not be as costly as you may think. There are various types of insurance cover that can meet some, or all, of those needs.

One option may be **Family Income Benefit (FIB)**. Whilst there may be some life cover in place - that's sufficient to pay off the mortgage - what about providing for everyday items such as food, clothing, utility bills and other expenses?

Rather than providing a lump sum payout, FIB provides a regular, tax-free, monthly (or annual) income - from the time of the claim to the end of the plan term. Which is why it can often cost less than life insurance - as you may, for example, only be

claiming an income for the remaining 5 years of a 20 year term.

A helping hand

This product can be particularly useful if you have young children and want to ensure that there's a regular income until they've grown up.



And if you want the benefit to increase each year, you can arrange for your policy to be index-linked, so that your monthly or annual income rises in line with inflation.

Some insurance companies also provide FIB policies which will pay a monthly income in the event that the assured suffers a Critical Illness, rather than on their death.

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

Can you afford protection cover?

You might feel you're already stretched to the limit, so can you find the money to pay for extra protection?

Well, it may be easier than you think. Take all those little items we take for granted, like the odd drink or magazine - you'll be surprised to find how quickly it adds up.

TREATS	£ Cost/unit (estimated)
Soft drink	.60
Snack	1.00
Magazine	1.95
Coffee	2.30
Pint of beer or lager	2.80
Glass of wine	3.00
Taxi	5.00
Cigarettes (pack of 20)	5.50
Take-away meal	7.00

If you cut out just one unit each week of the above items, then you could save around £125 across a month. And, in most cases, that'll be more than you need to cover the cost of your protection policy.

We don't expect you to give up all of life's little luxuries. However, you can see that just by keeping an eye on your spending, you could afford to set aside a little extra to improve your financial security.

IT'S CRITICAL!

If you're one of the 85%*, then what happens if you are too ill to work? Would you have enough savings to continue paying the mortgage, and all the costs of running a home?

Of course, if you're employed, you may have the buffer of 3-6 months' disability

*There's a good chance that at some stage in our life, we may face a critical illness such as a heart attack, stroke or cancer. Yet only 15% of us are protected against this possibility.

(Source: Mintel, Critical Illness Cover UK, February 2009)

cover as an employee benefit. After that, you would have to fall back on State benefits of limited value. And you are even more vulnerable if you are self-employed.

If the prospect of facing a serious illness concerns you, then you may wish to consider taking out some form of **Critical Illness cover**.

This cover is designed to pay you a lump sum if you are diagnosed with a specified life threatening illness or condition such as a stroke, heart disease or certain types of cancer, and you survive (generally) 30 days from diagnosis.

The actual premiums you would pay are obviously calculated against factors such as age, health, level of cover and medical history - and you must be honest when you complete the forms.

The policies can be complicated and may vary widely with regard to the illnesses covered, so do call us if you would like to find out more.

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

If you are 'property rich but cash poor,' over 55 and in an unmortgaged property, then equity release may be a way of turning bricks and mortar into cash for you.

Equity Release options...

Equity Release payments can be taken as a single lump sum, a series of cash payments or an income for life. Plans have improved enormously in recent years and members of the industry trade body 'Safe Home Income Plans' (SHIP) ensure that certain key safeguards are observed to protect customers. (see www.ship-ltd.org for more information)

The Financial Services Authority also regulates both 'lifetime mortgages' and 'home reversion plans' - the two principal forms of equity release.

But if you want to extract the full value of your property, you may need to sell up and downsize. So this should always be considered first.

Lifetime Mortgages

This involves taking out a lifetime mortgage, which can be drawn on immediately or as a series of payments, which you spend as you like. The big benefit is that you don't have to make any repayments during your lifetime because the interest is added to the loan and rolls up until you die, when the total debt (the capital and added interest) is paid off from the sale of your home.

But one of the disadvantages of equity release is that it could interfere with your entitlement to state benefits such as pension credit and council tax rebate.

Rolled up interest can also compound very quickly. A mort-

gage charging 7 per cent interest will roughly double your debt every 10 years, so that all the equity in your property could be exhausted by the time you die, leaving no inheritance to your children. To lessen the impact of this, you could adopt to draw down only what you need, to avoid having interest applied to money you don't require at that stage.

And all equity release plans provided by SHIP members carry a 'no negative equity' guarantee, which means that the **provider will never repossess your property**, even if your debt exceeds the proceeds of sale when you die.

Home Reversion Plans

These schemes enable you to sell a percentage of your property to a home reversion company in return for a lump sum or income for life, while you remain in the property.

This means that the percentage of the equity in the property that hasn't been sold can be left to your estate which may benefit should there be an increase in the market value of your home when you die.

These are lifetime mortgages and home reversion plans. To understand their features and risks, ask for a personalised illustration.

And as Equity Release is a complex area only specially qualified advisers can give advice on these schemes. Do get in touch to find out more.

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nobody really knows how this may impact upon inflation. If too much QE has already been applied and inflation starts to rise, then the Base Rate may need to go up to control it.

Recession boredom

There's a growing feeling that many people are 'bored' with the recession and having to put their lives on hold. And with the oncoming Spring, they may decide that now's the time to act - whether that's to move home, renovate their existing place, or to simply tidy up their finances, through remortgaging.

**■ 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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And with the continuing stringent lending criteria (particularly for the self-employed and contract workers), it's important that you also protect your 'credit rating', while you consider the most suitable deal for your needs.

Finally, if you've been hit hard by the economic climate, then it's important to avoid burying your head in the sand. Do inform your lender, should you be facing problems and talk to us as well.

In fact, whatever your financial position, do contact us to see how we could help you move forward on your own specific needs.

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

We offer our clients the choice of either paying a minimum fee of £500 or 1% of the loan advance, for standard mortgages, 2% for non-standard mortgages, or receiving our payment direct from the lender in the form of commission.

■ The contents of this newsletter are believed to be correct at the date of publication (January 2010).

■ Every care is taken that the information in *The Mortgage* newsletter is accurate at the time of going to press. However, all information and figures are subject to change and you should always make enquiries and check details and, where necessary, seek legal advice before entering into any transaction.

■ The information in this newsletter is of a general nature. You should seek professional advice tailored to your needs and circumstances before making any decisions.