Winter/Spring 2017

Mortgage & Protection news

The newsletter from Kama Financial Solutions Ltd

kama financial solutions

The last year or so has delivered some fairly seismic changes to the normal order of things.

» In the midst of all this, however, there continues to be some excellent mortgage deals on offer, should you be looking to:

- get onto the property ladder.
- move to a new home.
- raise some extra funds to undertake renovations to your existing property.
- secure a better interest rate on your mortgage deal.
- expand or get into the buy-to-let arena.

Time for Advice?

The team at Kama are keen to help our clients meet their mortgage & protection needs in 2017.
Main pic (l-r): **Anthony Davies-Cooper** - Head of Mortgage Relations, **Tracey Dixon** - Mortgage & Protection Advisor, **Kate Kelynack** - Company Director / Mortgage & Protection Advisor, **Matt Kelynack** - Managing Director / Senior Mortgage & Protection Advisor
Insets (l-r): **Laura Werrett** - Case Progressor, **Joanne Forbes** - Case Progressor, **Joanne Sheen** - Financial Controller

Current climate

But let's not kid ourselves that decisions are being taken in a normal market environment. Not when we've seen Brexit occurring, a Trump Presidency, elections coming up in France and Germany, and a more emboldened Russia. Additionally, the Pound has fluctuated, UK inflation is on an upward cycle and growth in the economy is slowing.

This has, and will continue to have an impact on the financial markets and may also affect the property sector, where annual UK house price growth (albeit with regional variations) ended up at 4.5% for 2016, the same as 2015 - with around 2% projected for 2017. *(Source: Nationwide House Price Index, Dec. 2016)*

The way forward

While none of us really knows how it will all pan out, we - as professional financial advisers - operate daily within the mortgage and protection marketplace; so are well placed to have an excellent insight into what may be the best way forward to help meet your own particular needs.

It's also worth noting that much has been done by the government and the Bank of England (BoE) in recent times to help ensure the country is in a better position to sustain any future shocks to the economy.

BoE initiatives such as the drop in the Bank Rate, £435bn of Quantitive Easing, and the Term Funding Scheme, may help to keep down the costs for those that have, or are seeking to take advantage of the current deals for mortgage loans.

At the same time, we'll understandably be keeping a close eye on how the Brexit process will develop and any impact it may have on your borrowing options.

Support for YOU

Of course, we are aware that you may have time-pressed lives, so we can hold your hand throughout the whole process, and liaise with the various parties along the way.

In addition to your borrowing needs, we can also discuss specific insurance products, that may help protect you (and your family). So please do get in touch.

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

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Welcome.... to this newsletter, which covers what we believe are some of the key issues of the moment - and sets out how we **may help you.**

- Kama Financial Solutions Ltd is an Appointed Representative of Pink Home Loans. Pink Home Loans is a trading name of Advance Mortgage Funding Limited.
- There will be a fee for mortgage advice. The precise amount will depend upon your circumstances but we estimate that it will be £299. But this may range from £250 - £1000.

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

GOV the Builder!

With £7.2bn of investment announced in the Autumn Statement, the government now expects to double, in real terms, annual capital spending on housing over the course of this Parliament.
(Source: Autumn Statement, November 2016)

» This should be good news for those who are keen to get onto the property ladder, or indeed those that are looking to move. Much is written about the **first-time buyer,** but there is also another key group - the **second steppers** - who are already in their own mortgaged property, but have possibly outgrown it; yet struggle to find (or maybe fund) a suitable new home.

Housebuilding targets

So any increased commitment from the government to stimulate the housebuilding sector, and make planning easier to both navigate and implement, will therefore be welcomed. In fact, according to Sajid Javid, the Secretary of State for Communities and Local Government: *"We'll have to build at least 220,000 homes a year, for the next decade, just to keep up with population growth."*

In recent years, we've fallen well short, but there has been a marked improvement in the last year or so with almost 190,000 new homes built in 2015 - an 11% year on year increase - albeit it's less than the figure required to simply stand still.

(Source: Department for Communities and Local Government, November 2016)

Where we can help

Despite the efforts to build more homes, and the benefits for many regarding the change in Stamp Duty; key issues still remain around potential borrowers being able to build up a decent deposit, and meet the current stringent rules on the evidencing of income and affordability.

Whilst we can't wave a magic wand, we can try to help you along the right path. As part of that process, we'd discuss the various options that may be on the table for those largely setting out, or at the early stages of the property owning journey, such as Help-to-Buy, Shared Ownership, support from the 'Bank of Mum & Dad', or perhaps cover relevant deals, readily available to all.

Of course, with numerous schemes and thousands of mortgage deals out there, you may think it's all too confusing, and might also be worried that you could damage your credit record if you apply to a wide range of lenders. So let us do the running for you.

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

Protection for the Self-Employed

What would happen if you suffered a serious illness, such as a heart attack, cancer or stroke **and survived** - and were then, understandably, unable to swiftly return to work?

Critical Illness Cover is designed to pay out a lump sum, against a wide range of serious illnesses (if the condition was specified in your policy), thereby easing the immediate financial concerns.

However, recent research from Scottish Widows showed that only 9% of the general population have this cover in place. Of course, if you are employed, you may have the buffer of a period of disability cover as an employee benefit. After that, you would have to fall back on state benefits of limited value.

You are even more vulnerable if you are one of the 4.8m self-employed workers, where even less, at just 7%, have this cover in place. And to compound the problem, the same research also showed that a sizeable 62% of self-employed worker households are solely reliant on one wage earner's income, compared with 52% of the overall population.
(Source: Scottish Widows, October 2016)

Also, don't think that this should only be a concern if you are much older, as the average age of critical illness claimants across many insurers is around the late 40s!

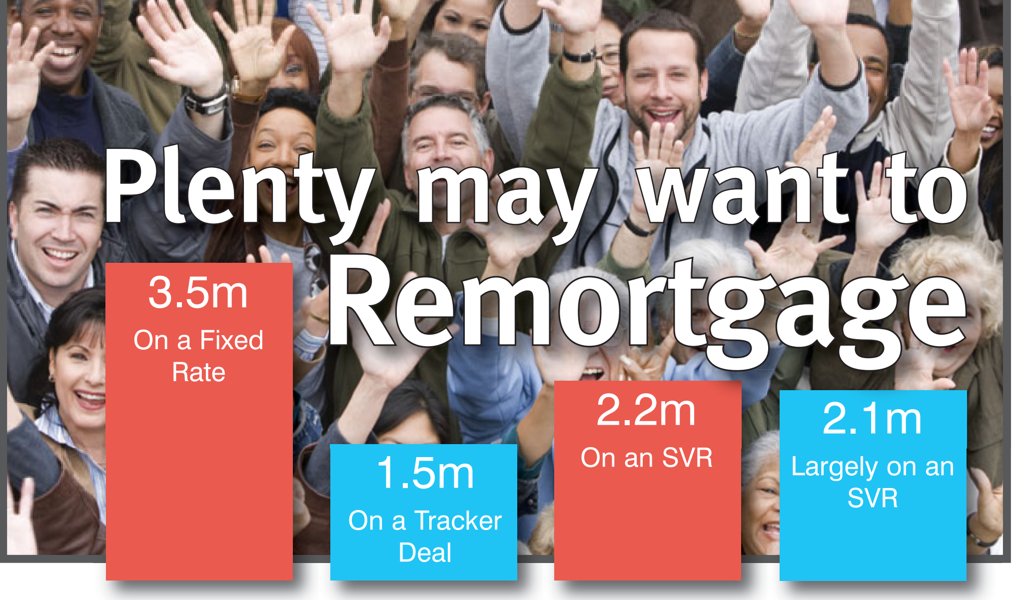
So it makes sense to have a chat with us to consider if a Critical Illness plan could meet your needs. If you do want to proceed, we can then discuss the level of cover you require, should you need to claim. Perhaps, for example, you want to have enough to pay off the mortgage, or alternatively you may decide to opt for less cover (meaning a lower premium too), but still have enough to see you through the initial period as you recover.

Do get in touch if you would like to find out more.

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

■ 93.1% of all 'Critical Illness' claims paid out in 2015.
■ Average payout of £66,200.
(Source: Association of British Insurers, April 2016 release)

Plenty may want to Remortgage



Residential Mortgage Borrowing by type of deal
(Source: Council of Mortgage Lenders, August 2016)

If borrowing by Landlords slows, then the lenders will be keen to look to other sectors to help make up the shortfall.

» This will be even more pronounced when you then consider that gross mortgage lending in 2016 is expected to sit at £246bn (almost 12% up on 2015), and rise slightly to £248bn in 2017.

In order to hit that level of lending, the **remortgage** market would be an obvious target. And it is one that has already shown growth over the last year or so - where it's 22% up by value year on year.

(Sources: Council of Mortgage Lenders, Market Forecast December 2016; remortgaging statistics Q3 2016 v. 2015)

Remortgaging is where you opt for a more suitable deal than the one you're currently on. In short, you remain where you are, but simply try to find a mortgage that'll cost you less each month, or perhaps one that will generate additional funds to enable you to undertake key home improvements.

The good news is that there are still decent (and in some cases, improved) deals out there. *(Source: Mortgage Brain, October 2016)*

On Fixed or Tracker deals

Of the 9.3m residential mortgage deals in play (see chart above, which excludes buy-to-let), about 5m are currently sitting on either Fixed or Tracker rates.

In some of these instances, the best option may simply be to remain as is, but it would be sensible to have the conversation to make sure you do have the right deal to meet your **current** needs. Particularly, if you have decided that now's the time to undertake some of the more major renovations to your home that you've put off for the last couple of years - and require some extra funding to help make it happen. In which case, remortgaging could be one of the options to consider.

On a Standard Variable Rate

Another sizeable figure is that 2.2m are definitely known to be on their lender's Standard Variable Rate (SVR). This figure could even rise to over 4m, if you add in the majority of the 2.1m loans taken out more than 12 years ago, as most are assumed to be on an SVR too.

If that's the case, then a staggering 45%, or thereabouts, of all residential mortgage borrowers are sitting on an SVR, where the average rate is around 4.9%*, meaning they could possibly be saving £000's if they remortgaged onto one of the current deals.

*(Source: *which.co.uk, November 2016)*

Benefit of Professional Advice

Of course, in some cases the borrower may feel that they won't qualify for a remortgage deal. This could be due to a change in circumstances, concern about the tighter affordability criteria, currently sitting on an interest-only deal, or needing an arrangement that may run into their retirement years.

But, let's not forget that many of those on SVRs, for example, may also be long-term borrowers who have benefited from the growth in house prices, meaning they're an appealing audience for lenders, and possibly qualify for the better loan-to-value deals.

Additionally, every lender doesn't work to the same criteria, and that's why it's in your interest to have a conversation with us, as you might be pleasantly surprised.

You'd also benefit from the fact that we already help a whole range of clients, from those who are new to home ownership, have a home and may want to move up (or down) the property ladder, seek buy-to-let deals, or (as we're discussing here) simply want to stay put and identify a better deal and/or require further funds.

As part of that process we would run through the 'tighter' rules, which now apply to ensure that borrowers are stress-tested to see if they can not only meet current payments, but are also be able to cope should the interest rate rise.

To hear more, please get in touch.

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

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

Mortgage Calculator

- could it work for you?

Monthly payments for a mortgage per £1,000 borrowed over 25 years

Interest rate %	Interest-only* £	Repayment £
0.25	0.21	3.44
0.50	0.42	3.55
1.00	0.83	3.77
1.50	1.25	4.00
2.00	1.67	4.24
2.50	2.08	4.49
3.00	2.50	4.74
3.50	2.92	5.01
4.00	3.33	5.28
4.50	3.75	5.56
5.00	4.17	5.85
5.50	4.58	6.14
6.00	5.00	6.44
6.50	5.42	6.75
7.00	5.83	7.07

Here's how to use the mortgage payments calculator: A £100,000 mortgage over 25 years, charged at a 2% interest rate would cost 100 x £4.24 (for Repayment) = £424 per month.

* Excludes any payments to a separate savings scheme, to help pay off the capital amount borrowed.

This calculator only provides a guide to monthly payments and does not guarantee eligibility for a mortgage. The actual amounts that you may have to pay may be more or less than the figures shown. Please contact us for a personalised illustration.

Navigating choppy waters...

With all the developments within the **Buy-to-Let** marketplace, it's vital that you take advice.

Despite the many challenges, Buy-to-Let remains a sizeable part of the mortgage lending marketplace, and the rental sector is likely to continue to be fuelled by demand (such as, not enough homes being built and the issues renters face in pulling together the deposit required to get onto the property buying ladder).

The upshot of this is that landlords are seeing decent rental returns, and are benefiting from some of the excellent buy-to-let mortgage deals out there. *(Source: Mortgage Brain, November 2016)*

However, they will need to adapt and evolve as market and economic conditions change, and it's vital that landlords take professional advice. From us, as well as other professions, such as their accountant - particularly if they want to assess if opting for a Limited Company status may now be a better route going forward for their portfolio.

The key impacts

The government sees this sector as a decent revenue source, and the Bank of England feels that it needs to be controlled so that it's not so sizeable that it could have an adverse effect on the overall property sector. The latest initiative, in this respect, relates to the stricter affordability stress test rules (see panel below), and this needs to be considered alongside other developments that have occurred in recent times, such as:

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.

Stamp Duty changes - purchases of buy-to-let properties (and second homes) now attract an additional 3% stamp duty above the current banded levels.

STRICTER RULES FOR BUY-TO-LET

From 1 January 2017 new stress tests and affordability checks will need to be in place, with the remainder of the new rules to be implemented by 30 September 2017.

What this means is that unless the initial mortgage rate is fixed for at least five years, lenders must take account of possible interest increases over a five-year period using a minimum stress test interest rate of 5.5% for new loans.

Alongside this, the Prudential Regulation Authority (PRA) has also stipulated a minimum interest coverage ratio of 125% - albeit it seems many lenders are already applying 145%.

Another rule is that from September 2017, Portfolio landlords (those that have four or more mortgaged properties, as defined by the PRA) must have a specialist underwriting approach applied, as lending to this group is viewed as being inherently more complex.

What it means

Of course, Brexit, and other economic impacts may ultimately influence current and planned regulatory controls. But, in the meantime, it's vital that both existing and potential landlords do their homework. For example, think about remortgaging onto a better deal, or look for the best possible deal if just starting up.

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.

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