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YOUR HOME FINANCE

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INSIDE THIS ISSUE

CHANCELLOR URGED TO SCRAP STAMP DUTY FOR ALL

A leading think tank, the Adam Smith Institute, believes that stamp duty is a cause of major problems in the residential housing market, not least because it keeps people living in houses that are too large for their needs. In simple terms, the tax is viewed by many as a tax on moving, and should be scrapped to keep the housing market flowing. In addition, the Institute believes that abolishing it would produce an extra £10bn boost to the UK economy.

The report concludes that the tax, which raised £12 billion for the Treasury in 2016, stops larger homes being sold to new families, reducing the supply of available family homes further. In addition, it can prevent people moving around the country to take up new jobs.

Stamp Duty (though not Land and Buildings Transaction Tax in Scotland) was abolished for first-time buyers purchasing properties worth up to £300,000 in the Autumn Budget, but market commentators believe that as Stamp Duty can add thousands to the cost of buying a home it should be abolished across the board. Watch this space.

MORE HOMEOWNERS MOVING UP THE HOUSING LADDER

Figures from Lloyds Bank[1] show that in 2017 more than 370,000 home movers progressed up the housing ladder and purchased their next property – the highest recorded figure for ten years. The only region to record a fall in the number moving up was Greater London.

'SECOND-STEPPERS' MOVING ON

Second-steppers, as they are often referred to, are mostly couples and young families moving on from their first house or flat, often looking to find somewhere where they can put down roots while their family grows up.

Homeowners ready to take their second step on the property ladder have found it easier lately, due to a number of factors. Mortgage rates have remained low, employment levels are at a high, economic growth forecasts have been revised upwards, and those who own property have seen the equity (the value tied up in their property), increase. This puts them in a stronger position and means that they can afford to put down a bigger deposit on their next property, helping to make their move more affordable.

PARENTS CONTINUING TO LEND A HAND

According to Lloyds Bank, the difference in price between a typical first-time buyer's home and their next purchase is around £126,000. Many will have around £105,000 in equity from the sale of their first home, leaving a funding gap of around £21,000. This funding gap is sometimes filled by parents and grandparents keen to pass on their wealth during their lifetime.

MAKING THE MOST OF A MOVE

Second-steppers who want to get good value for money are thinking laterally. Many are moving out of larger towns and cities to areas that are potentially less fashionable, but better value. Some are looking at homes that have the potential to be extended in order to get the living space they need. Towns with a commuting time of around an hour are proving particularly attractive to those Londoners looking to relocate.

A mortgage is a loan secured against your home or property. Your home or property may be repossessed if you do not keep up repayments on your mortgage or any other debt secured on it.

[1]Lloyds Bank, Jan 2018

PROTECTING YOUR MORTGAGE MAKES GOOD FINANCIAL SENSE

Mortgage protection insurance is a type of policy that you take out when your mortgage commences. Whether it's a repayment or an interest-only mortgage, it's important to have plans in place to protect the balance of your mortgage, in the event of death or the diagnosis of a serious illness. After all, you'd want to safeguard your loved ones by keeping a roof over their heads.

A MORTGAGE IS A MAJOR FINANCIAL OUTGOING

Mortgage payments often represent a major chunk of a family's monthly expenditure. So if your children, partner or other relatives depend on your income to cover the cost of paying your mortgage and other household bills, then it makes financial sense to think about the protection and peace of mind that life assurance can provide in the event of your death or the onset of a serious illness.

Receiving a payout from a life insurance policy could mean the difference between your family struggling to make ends meet and being financially secure.

TYPES OF COVER AVAILABLE

There are different options and types of mortgage protection policy available. So it's important to receive advice on the right type of policy for your circumstances.

You can select to take out a policy that covers you in the event of death, critical illness and permanent disability, and the policy will pay out a lump sum in the event of a valid claim, so that you or your family can repay the remaining balance of your mortgage in full.

There are various other forms of cover such as level term insurance, where the cover remains constant throughout the term of the policy, or decreasing term insurance where the level of cover gradually reduces. The latter is often taken out with a mortgage, with the sum it pays out reducing in line with the outstanding amount of your mortgage. Policies can be taken out individually or jointly as a couple.

If the policy has no investment elements then it will have no cash in value at any time and will cease at the end of the term. If premiums are not maintained, then cover will lapse.

The policy may not cover all of the definitions of a critical illness. For definitions please refer to the key features and policy document.

TIPS ON REMORTGAGING YOUR HOME

One of the major reasons people choose to remortgage is to get a better deal and save money by moving to a lower rate, either with their current lender or a new one.

With interest rates currently low, many borrowers have found their monthly repayments affordable, and so have continued with their existing mortgage deal. However, if it's been a while since you reviewed your current deal, this might be a good time to see what alternatives are available in the market place.

WHY THERE MIGHT BE A BETTER DEAL FOR YOU

If your current fixed-rate, tracker or discount deal is about to end or has already ended, you'll normally be moved to your lender's Standard Variable Rate (SVR). The SVR is usually pegged to a percentage above bank base rate, and can be subject to change by the lender at any time. However, you could potentially save a substantial amount by moving your mortgage to a deal with a more attractive rate.

STEPS YOU NEED TO TAKE

Get all your mortgage paperwork together, so that you can see what you're paying now, and also look to see what exit fees there might be for moving to a new deal. We can help you by reviewing your current mortgage, and talking you through the alternatives, so you can decide if remortgaging will benefit you.

We can help you work out the costs of ending your current deal and moving to a new one. We'll explain terms such as Early Repayment Charges, as well as the costs associated with the switch, such as legal costs, valuations and arrangement fees. We'll also be able to suggest which lenders will be most likely to approve your application, removing the risk that you will damage your credit history by getting multiple applications rejected.

There's plenty to consider when you're looking to remortgage, so it's not surprising that an increasing proportion of those looking for a mortgage choose to work with a mortgage adviser (73% of mortgage lending by amount, projected for 2018[1]).

You may have to pay an early repayment charge to your existing lender if you remortgage. Think carefully before securing other debts against your home.

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[1]Intermediary Mortgage Lenders Association, April 2017

ARE BUNGALOWS LOSING FAVOUR?

Although it's been recognised for a long time that the UK has an ageing population, it seems that we're now facing a specific housing shortage that hasn't been addressed.

Over the past 30 years, the number of bungalows built each year has steadily dropped, reaching a figure of just 2,210 in 2016[1]. Given the UK's growing number of elderly citizens and the increase in longevity, this decline in traditional pensioner-friendly accommodation could pose serious problems for the future development of the housing market.

FLATS VERSUS GARDENS

The rationale behind this move seems to be that house builders would much prefer to build blocks of flats for the elderly rather than construct single-storey properties with gardens. If this trend continues, then new bungalows could soon be a thing of the past.

In around three-quarters of our major towns and cities, bungalows now account for less than 10% of all houses on the market, according to estate agents, HouseSimple. In Greater London, fewer than 1% of all homes listed for sale are bungalows.

Many would argue that we need more bungalows, not fewer. Purpose-built bungalows allow older owners to move into smaller, easier to maintain units, which in turn frees up large homes to meet the housing market needs of growing families. A continuing lack of suitable properties could force many older people into care earlier than they would have wished.

CATERING FOR LATER-LIFE NEEDS

Elderly people can remain independent for longer if their accommodation is built with their specific needs in mind. Good design features such as electrical sockets at waist height, wide doorways that can cater for wheelchairs, walk-in showers and grab rails in bathrooms, good lighting, and access to local amenities and medical care can all help to create the right environment. This will encourage older people to sell large family properties, a move that can play an important role in keeping the housing market active.

[1]National House Building Council, 2017

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THE SELF-EMPLOYED MORTGAGE MAZE

More than 4.7m people are self-employed in the UK[1], that's almost 15% of the workforce. Whilst it can be harder for someone in this position to get a mortgage, times are changing, and more lenders are adjusting their lending criteria to meet the needs of this growing cohort of workers.

Post the credit crisis, lenders tightened their criteria for approving loans, and the new rules can be particularly tough on the self-employed. Successful entrepreneurs with growing businesses can find the process of shopping around for a mortgage an exasperating experience; that's where working with us can save time, energy and undue stress. We have access not only to high street lenders but also to specialist lenders who only work through intermediaries. We know first-hand which lenders are sympathetic to the specialised needs of the self-employed.

DOING YOUR HOMEWORK

You'll need to make sure you have all your relevant financial documents to hand, and ensure that any information you provide in support of your application is clear and concise and suited to a lender's requirements.

What potential lenders will want to see is evidence that you are able to make your monthly repayments in full and on time each month. They will generally ask for accounts for the last two years, and you should be prepared to answer probing questions about your income.

MAKING THE RIGHT MOVES

Make sure your personal bank account is in good order. Removing any unnecessary spending or subscriptions you no longer use can help improve your chances of being offered a loan

If you've had any financial problems in the past or don't have a credit history, you might want to acquire a credit card and make repayments in full and on time to demonstrate you can manage your money. Make sure you're on the electoral roll too, as this will help your credit rating.

Having a 20% deposit will improve your chances, especially if you don't have a long history of annual accounts.

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[1]Office for National Statistics, Jan 2018

FIRST-TIME BUYERS – HOW TO MAKE THE MOST OF THE MARKET

If the time has come when you can afford to buy your first home, it will really pay you to have a strategy in place that ensures you make a success of your purchase.

WORK OUT HOW MUCH YOU CAN AFFORD

We can help you work out how much you'll need to have saved for a deposit. Although you can get a mortgage with a 5% deposit, some lenders will require more and will offer better deals to those with bigger deposits.

There are other costs too, like solicitor's fees, surveys and removals. Depending on the price of the property you want to buy, there may be stamp duty too. Except in Scotland, Stamp Duty was abolished last November for first-time buyers on homes worth up to £300,000 and, particularly to help those buying in very high-priced areas, such as London, a Stamp Duty exemption is in place on the first £300,000 on properties valued up to £500,000; the additional amount up to £200,000 will incur 5% duty.

From April this year, property Stamp Duty matters in Wales will, as in Scotland, be devolved. The above concession will then cease to apply in Wales, but the new Land Transaction Tax there will have a £180,000 threshold for all purchases, not just those of first-time buyers. The Scottish Government has proposed a higher £175,000 (from £145,000) Land and Buildings Transaction Tax threshold for first-time purchases as from 2018-19.

GET AN AGREEMENT IN PRINCIPLE

Once you have a mortgage offer, often referred to as a Mortgage in Principle (MIP) or a Decision in Principle (DIP), the free confirmatory document demonstrates to sellers and estate agents that you're a serious purchaser.

REVIEW LOCAL SOLD PRICES

Once you've found a property and want to make an offer, be prepared to haggle. Check the asking price against that of other similar homes that have sold recently in the local area. This can be a good bargaining tool in your negotiations. Remember too, that the offer price of a property can be over-optimistic. If the property has been on the market for some time, the seller may be keen to move and may be prepared to drop their price. As a first-time buyer with nothing to sell, you're in a stronger position than another buyer who has yet to sell their existing property.

HAVE A SURVEY DONE

Having a survey carried out on a property before you commit to buying is essential. It can save you thousands of pounds in repair bills and a lot of stress in the future. There are various options available, and your mortgage adviser will be able to offer advice on how to choose the type that meets your needs.

It's important to note that a mortgage valuation isn't the same as a structural survey. A mortgage valuation is undertaken by your lender to assess whether or not the property is sufficient security for the loan. Whilst it will give you a rough idea as to whether the asking price is fair, it won't tell you about the state of the property or show up any underlying faults.

A survey provides reassurance and can also help you decide whether or not to proceed with the purchase. If the surveyor reports problems that need to be remedied, you could still decide to proceed, using the survey findings to renegotiate the purchase price.

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AIRBNB – DON'T NEGLECT YOUR HOME INSURANCE

The growth in popularity of home stays has been phenomenal, with more and more homeowners earning income by signing up to the scheme and becoming hosts. If you're thinking of joining the ranks of those who hire out their homes on Airbnb or similar sites, you'll need to make sure that you have the right insurance cover in place to protect your home if it's damaged by one of your paying guests.

When you have a tenant in your property, you may not be insured under the terms of a standard home insurance policy. Airbnb do provide what they call a host guarantee, but make it clear that it isn't an insurance policy and they recommend that you take out your own separate cover.

There are now new top-up policies on the market to protect hosts. They provide cover for homeowners, tenants and landlords who let rooms, annexes or whole houses, and allow you to increase your cover on a short-term basis. For example, some policies allow your home to be occupied by paying guests for a maximum of 90 days during the policy year.

What is important is that homeowners considering letting a room or property in this way, seek consent from their mortgage lender first, restrictions may apply.

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