Winter 2019

Mortgage & Protection news

The newsletter from John Crabtree, Crabtree Consulting

Crabtree Consulting

PROPERTY FINANCE SPECIALISTS

With ongoing changes across the political and economic spectrum, plus the rules and regulations applicable to funding needs, it's no surprise that you may feel you need advice.

Let US help YOU...

» In this respect, we can help to make sense of the issues surrounding Brexit, interest rates, inflation and so on; and how this may impact upon both your ability to borrow, and what you can secure.

As you may know, we provide advice across a wide range of needs for both home-owners (existing and potential) and landlords, and along the way would identify the **most suitable deals** for those who may want to:

- move home, or improve the current one.
- buy their first home, or an additional property for second home/rental purposes.
- improve on their current mortgage deal.

Furthermore it's also vital that you consider how you're protecting yourself and your income stream against any unforeseen circumstances that may hit you along the way.

The Positives

Within the protection industry there's been an enormous amount of innovation over the last couple of years, so it's important to chat through the options. In fact, even if you have longstanding policies in place, it may also make sense for us to revisit them to ensure you're still getting the most suitable package that meets your current needs.

Another positive is that despite rises in the Bank of England Base Rate - which influences the cost of mortgage deals - we are still very much in a **low interest rate** environment. For example, going back a decade or so, Base Rate was as high as 5.75%.

This means that there are still some excellent deals on offer, whether you are looking at 2, 3, 5 or even 10-year terms at the deal rate.

As for **house prices,** they continue to rise slowly (albeit with regional variations). Across the UK in November 2018, there was a 1.9% annual increase. *(Source: Nationwide)*

The Autumn Budget

Amongst the initiatives set out in the Budget in October 2018, there were some that would impact upon the housing sector.

■ The government repeated its intention to incentivise housebuilding.

■ Those that are looking to purchase their first home also benefited...

- The existing **first-time buyer** stamp duty relief has now been extended to first-time buyers purchasing 'shared ownership' homes up to £500,000 in value, with:
- 0% stamp duty on the cost up to £300,000.
- 5% stamp duty on any amount within the £300,001-£500,000 bracket.

And all backdated to 22 November 2017.

- The Help-to-Buy Equity Loan scheme was extended and a revised scheme from April 2021 will run until March 2023.

Whatever your mortgage or protection requirements may be, please do get in touch to hear more.

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

■ YOU MAY HAVE TO PAY AN EARLY REPAYMENT CHARGE TO YOUR EXISTING LENDER IF YOU REMORTGAGE.

John Crabtree
Crabtree Consulting
1b, Mereworth Business Centre
Danns Lane, Wateringbury
Kent ME18 5LW

Tel: 07786 065041 / 01622 817366
Email: john@jcpms.co.uk
Web: www.crabtreeconsulting.eu

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

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Finding a Way

There are still some decent deals on offer, but mortgage rates seem to be edging slightly upwards, and may continue on that path.* So, is it time to act? *(Source: *Mortgage Brain, November 2018 release)*

» With around 5,000 mortgage products out there, meeting a wide range of needs, it can also be a confusing process that highlights the need for advice. So, it's no wonder that **85% of all mortgages continue to go through intermediaries** (such as us).*

*(Source: *iress, 2018 Mortgage Efficiency Survey, October 2018)*

Identifying a route for You

These days there are far stricter rules applied to 'evidencing of income' and 'affordability'. They are in place to ensure that borrowers are stress-tested to see if they can, not only meet the current payments, but are also able to cope should the interest rate rise.

In this respect, different lenders may interpret the rules in different ways, meaning that if you can't get the loan you need from one, you may from another. This is a further reason for securing advice from an adviser who is operating in this marketplace, day-in, day-out. Our involvement may also help to protect your credit score, by not applying to too many different lenders.

You can Relax

We also recognise that most of you will have time-pressed lives. In which case, we'd endeavour to help reduce the hassle of filling out forms and applications. Furthermore, we would hold your hand throughout the process, and try to liaise with the various parties along the way.

We're here to help You

Of course, you can undertake this whole process yourself. For example, if your deal period is coming to an end, then you may consider remortgaging with the same lender, because you feel they delivered the most suitable deal for you last time.

However, in this dynamic mortgage environment, lenders might be chasing market share at different times, so it may not be the best option to limit yourself to what's on offer from just one of them.

That's why it makes sense to ask us to assess the wider marketplace. It is an important process, even if the upshot is that you stay where you are.

In the first instance, to get a feel for payments against the interest rate you're currently on vs. what you believe could be on offer; do check out the mortgage calculator to see how this may pan out.

Please get in touch if you would like to hear more.

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

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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.

Want to move off your SVR?

The 2.41% difference between an average Fixed Rate two-year deal and the average 4.85% Standard Variable Rate (SVR) was at a 10-year high.

(Source: Moneyfacts, September 2018 analysis)

» While you may have good reason to be sitting on your lender's (generally more expensive) SVR, do talk to us if you'd like to consider a more suitable deal.

For example, you may have come off your deal period, but are worried that you may not qualify for a new one.

If you find yourself in this position, then you're not alone, as at least 1.8m borrowers are currently on their SVR. *(Source: UK Finance)*

Interestingly, about 150,000 of them are viewed by the industry as **Mortgage Prisoners** - borrowers who are 'stuck' on their existing deal. However, recent developments mean that some of those, who sit with active lenders, are now being looked upon more favourably.

This slight relaxation of the lending criteria may possibly result in some lenders being more amenable to others on an SVR, so it's well worth having the conversation with us.

From feeling fine... to Breadline

1 in 4 Brits say they'd face financial ruin if they were out of work for only 4 weeks.

(Source: Drewberry, Protection Insurance Survey 2018)

» The good news is that there are **Protection products** out there to deliver a degree of financial support (and comfort) should the unexpected occur, and you're unable to work due to ill-health, injury, or worse still, death.

Understandably, these are not topics that most people are keen to consider or discuss. And if they do, then protection plans can often be a reluctant purchase, where you're expected to commit money to something you hope will either never happen, or would not occur for many, many years.

Yet, sadly it does. According to research from Drewberry, **1 in 8 of all current healthy 35-year-olds will die before the age of 65!**

(Source: Drewberry, Protection Insurance Survey 2018)

As worrying as that figure may be, it is probably more likely that they would face long-term ill-health, injury or a serious illness across the same period. However, if a suitable policy is in place, it may ensure the bereaved family keeps a roof over their head, or that the planholder is able to fully focus their energies on recovery.

What's on Offer?

There isn't really a one-size fits all type of product offering, but broadly there are three main areas to consider:

- **Life Cover,** that pays out a lump sum when you die.
- **Critical Illness Cover,** that pays out a lump sum when you have a specified serious illness.
- **Income Protection,** that pays you a percentage of your monthly income when you can't work due to illness or injury.

Of course, it's far more complex than that, when you're faced with a multitude of insurers, with varying plans, numerous options and added-value benefits. Also, do consider what your employer provides, and how extensive (or limited) that may be.

Consumer take-up Concerns

"It's too expensive"

Let's consider an Income Protection plan. In general, if you meet the conditions when off work through illness or injury, this will pay out until you're well enough to return to work; have retired; the policy ends; or upon your death. Whichever happens first.

To keep a control on costs, let's look at a limited payment term plan that pays out for up to two years, if unable to work due to illness or injury. Analysis by Zurich, an insurer, set out that Income Protection cover for a 35-year-old professional earning the average salary of £27,000, and wanting to protect 50% of their net income may only cost the equivalent of **one takeaway coffee a week** across the course of each month.

(Source: Zurich, Cost of Resilience report, August 2018)

Of course, premiums will be dependent on your own set of circumstances.

"They rarely pay out"

In fact, the opposite is true, as **97.8% of all claims were paid out** in 2017, amounting to an average payout of almost £14m a day. The highest percentage payout is applicable to Life cover (99.5%), but even with Income Protection (87.2%), and Critical Illness (92.2%), the vast majority of claims are settled.

(Source: Association of British Insurers, April 2018 release)

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

PROTECTION SHORTS...

It's for Tenants too

A key time when people consider taking out a protection plan is at the time of a house purchase or remortgage. Yet protection is equally important for those renting, particularly as some landlords may be even less understanding than lenders!

Added-Value Benefits

The benefits now available across a wide range of Protection product offerings, can deliver tangible support - even if you never actually claim. This could cover areas such as remote GP services, telephone counselling, through to wearable tech to monitor your activity.

Place it in a Trust

A Trust is a legal arrangement that can help ensure that **life policies,** for example, are paid out speedily to the beneficiaries. This would mean that there's one less issue to worry about at a difficult time for the family. It may also assist with any inheritance tax planning, if relevant.

More recently, this process has become easier to undertake, with some insurers having online trust planning in place.

Not all protection policies should be written in Trust, so do take advice. The Financial Conduct Authority does not regulate Trust or Taxation advice.

The evolving Landlord

There's no doubt that due to the government's enthusiasm to tax and regulate the **Private Rental** sector, **Landlords** are having a tough time of it. However, many are adapting to take advantage of the potential that still exists.

» Due to the issues faced, it's probably no surprise that some landlords have sold up or have reduced their holding, and others are deterred from entering this sector.

In October 2018, Rightmove reflected this by stating that there were 8.7% fewer properties available to rent in Q3 2018, compared to the same period a year earlier. A possible impact of this decreasing supply, is that the average asking rents outside London have now hit more than £800 per month for the first time.

Rent increases might be sustainable in some areas, as the demand may be there when you consider that **the cheapest local homes are out of reach for at least 40% of 25-34 year-olds,** even if they've saved a 10% deposit! Yet back in 1996, over 90% of the same age group could have purchased a home.* For many, renting is the only way forward at this stage.

And plenty are renting. One-fifth of all households are now in the private rented sector, of which almost 40% include at least one child.** Which means the days of the rental market being largely one for young, single people with few commitments are over.

*(Sources: *Institute for Fiscal Studies, Oct. 2018; **Residential Landlords Association, Oct. 2018)*

Limited Company status

Placing properties within a limited company means that they shouldn't be affected by the tax relief changes, and lenders may apply a less stringent rental calculation as a result.

This is a route a number of landlords have opted for, but it won't be right for everyone, particularly those with just one or two properties. Also, interest rates may be higher, and there might be implications for both capital gains tax and stamp duty. This is why it's vital that you obtain tax advice from your accountant.

ISSUES FOR LANDLORDS

- Stamp duty surcharge of 3% on the purchase of second homes.
- Stepped reduction in mortgage interest tax relief.
- Stricter regulatory rules requiring lenders to stress-test likely future interest rates over a five-year period (unless the loan rate is fixed or capped for five years or more).
- Special underwriting rules for 'portfolio' landlords that have four, or more, mortgaged properties.
- New rules for HMO (House in Multiple Occupation) landlords.
- Negative developments in the Budget regarding both Private Residence relief, and Lettings relief.

The Mortgage Deals on Offer

Lenders still want to lend to this market, and would be affected by any lower take-up from landlords. As a result, the subsequent fight for market share has delivered some decent rates in this sector.

It would make sense to have a chat if you'd like to discuss the current deals, or seek advice on a way forward through the plethora of red tape that now exists.

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.

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The number of workers in the UK who are **Self-Employed** has risen over the years, hitting 4.8m in 2017. This means that more than 1 in 7 workers are now self-employed. But how well-served are they when it comes to **Mortgages** and **Protection** cover? Not very, it seems. *(Source: Office for National Statistics, Trends in Self-Employment, February 2018 release)*

Rise of the SELF-EMPLOYED

Mortgages for the Self-Employed

Whilst there may have been a lack of desire in the past by lenders to support this sector, the tide seems to be slowly turning, with some taking a more favourable view.

However, there's possibly a way to go, as research undertaken amongst the self-employed, such as sole traders, contractors and those running a business with up to nine employees, suggested widespread dissatisfaction with the way they are treated when applying for a mortgage.

For example, **the majority (71%) felt they were discriminated against when trying to secure a mortgage.** Whilst 26% of those asked admitted they would live in a different property if their income was treated in the same way as an employed person for mortgage purposes. *(Source: The Mortgage Lender, January 2018)*

BUDGET NEWS

- Dependent on their status, some self-employed workers may see their tax bills increase from 2020 onwards, as announced in the **2018 Budget**. This is because the government has expanded the **off-payroll working rules (known as IR35)** to the private sector. Search for the underlined text on www.gov.uk to find out more.
- The move would force some contractors, who work through their own company, but are in practice employed by a third-party, to be taxed as employees.
- The business taking on people will be responsible for deciding which contractors pay more tax and national insurance, but it won't apply to the 1.5m smallest businesses who take on contractors.
- The Treasury insist that the reforms would not affect anyone who is genuinely self-employed. However, since the Treasury expect to raise £1.3bn a year by 2023-24, do check out the link and discuss this with your accountant.

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Of course, the lenders reticence to offer mortgages for this sector is that they prefer to see a stable income stream. Many of those who are self-employed may have an irregular income stream - some months may show a decent income, others may require a bit of belt-tightening.

The 26% figure mentioned earlier (those who stated they'd like to move or get onto the property ladder) equates to around 1.25m people. A sizeable amount; and one that may have influenced some lenders to look at how they could better support this sector.

That's why it's vital that those who are self-employed seek financial advice, to help identify the more amenable lenders.

Protection Considerations

Unlike most employees - should they be off work for a lengthy period due to illness or injury - the majority of self-employed workers will not be entitled to Statutory Sick Pay and would, instead, have to pursue a lengthy claim for Employment and Support Allowance.

Yet as the self-employed worker is likely to be more exposed financially should they not be earning, it makes sense to consider the three main protection offerings; life, income protection and critical illness.

However, **nearly a fifth didn't take up any kind of protection cover because they thought they'd not be eligible.*** Of course, whilst there are some restrictions for example, with regard to Income Protection, there are also policies that are more tailored to their needs, so it makes sense to take advice.

*(Source: *Drewberry, Protection Insurance Survey 2018)*

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

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Ongoing Support

While the **First-Time Buyer** still faces sizeable issues - such as raising a deposit and meeting the strict borrowing criteria - much is being done by the government (and possibly family and friends) to help them on the way.

» There's a lot of assistance out there for **First-Time Buyers,** in addition to the government's desire and support to get more homes built across the UK.

Also, let's not forget that for some, there's support from the Bank of Mum & Dad (plus Grandparents and friends). According to Legal & General, this would equate to the Bank of Mum & Dad being a £5.7bn a year mortgage lender! Over a quarter of all buyers (27%) - as it's not just restricted to first-timers - are likely to receive help from friends or family in 2018, purchasing almost 317,000 homes! *(Source: Legal & General, Bank of Mum & Dad report 2018)*

Where we can help You

Whether you're fortunate enough to receive support, or are on your own, it's vital that you take professional advice.

We would help navigate you through the affordability, evidencing of income and credit rating hoops, and in the process hopefully identify some of the decent deals that are still on offer.

A further reason to tread this path is the fact that across the UK, the **cost of a mortgage on a comparable home is cheaper than renting in the same region.** *(Source: Santander UK, June 2018)*

Credit Rating

The role of a **credit score** is to try to predict your future behaviour, which means that people who have a poor score may suffer. We can talk through the steps you could take to help improve your rating, and to make yourself more appealing to the lenders. Surprisingly though, rental payment history (particularly for those not in social housing) isn't necessarily reflected in people's credit reports. However, there now seems to be greater enthusiasm from the credit agencies and from those that use their service to include this information. This is likely to benefit some first-time buyers, as their credit score may improve as a result.

Stamp Duty

This tax can amount to a hefty sum, so in England and Northern Ireland, there's tax relief for first-time buyers (now also including those in shared ownership) up to a purchase value of £500,000. This means that no stamp duty tax would be paid up to £300,000 - and 5% on any applicable portion between £300,001 - £500,000. A similar scheme operates in Scotland.

Government support

(This relates to the situation for England, but similar schemes also operate throughout the UK. Various rules will apply to all schemes)

HELP-TO-BUY: SHARED OWNERSHIP SCHEME

- If the borrower is a first-time buyer; or used to own a home, but can't afford one now; or is an existing shared owner; then this scheme may offer the chance to buy a share of the home (between 25%-75%) and pay rent on the remaining proportion.
- Then down the line, the borrower could purchase a bigger share of the property.

HELP-TO-BUY: EQUITY LOAN SCHEME

- In this scenario the government lends the borrower up to 20% (up to 40% for London) of the cost of a newly-built home (up to £600,000 in value). This is not just designed for first-time buyers.
- For example, the borrower may only need a 5% cash deposit, and a 75% LTV mortgage (55% in London) to make up the rest.
- It needs to be the only property you own, and can't be sub-let or rented out.
- The borrower won't be charged fees on the government loan figure for the first five years of owning the home.
- The government would then get the percentage it loaned of the future market value (or after 25 years, if not sold before then).

Please talk to us to see if we can help you (or a family member) step onto the property-owning ladder.

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■ 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: Tel: 07786 065041 / 01622 817366 Email: john@jcpms.co.uk Web: www.crabtreeconsulting.eu