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YOUR HOME FINANCE SPRING 2017

**INSIDE THIS ISSUE**



## KEY POINTS FROM THE SPRING BUDGET 2017

- The Office for Budget Responsibility (OBR) forecasts the UK economy will grow by 2% in 2017
- UK's national debt now stands at almost £1.7 trillion or a sobering £62,000 per household
- Tax-free dividend allowance will be reduced from £5,000 to £2,000 from April 2018
- £425 million investment in the NHS in the next three years
- Investment in technical education for 16 to 19 year olds rising to over £500 million
- £536 million for new free schools and to maintain existing schools
- A three-year NS&I Investment Bond with a market-leading interest rate of 2.2% available for 12 months from April 2017
- The Lifetime ISA will be available from 6 April this year

# BUY-TO-LET – WHERE ARE WE NOW?

The buy-to-let market looks set to change in the coming years as April's tax changes start to bite. Buy-to-let landlords have already faced changes in Stamp Duty Land Tax in England and Wales, and Land and Buildings Transaction Tax in Scotland. New landlords, or those wanting to take on new loans, will also find themselves subjected to tougher underwriting standards operated by lenders.

The Council of Mortgage Lenders believes that the size of the buy-to-let market will fall in the next couple of years from the £40bn level seen in 2015 and 2016. Some commentators are suggesting that the contraction could be to around the £30bn mark.

## ALTERNATIVE STRATEGIES

Landlords are relying more on cash in the face of tougher lending criteria. According to estate agents Countrywide, the proportion of landlords purchasing properties with 100% cash has steadily increased from 41% in 2007 to 61% today.

In the face of the tax changes, some landlords have decided to set up limited companies. By doing so, they can borrow through the company and still offset their finance costs against their rental income. However, this solution doesn't suit every buy-to-let landlord's investment strategy, and some commentators have suggested that the government might make this subject to tougher taxes too. The limited company route can also give rise to potential stamp duty charges and capital gains tax liabilities.

Landlords are also turning their attention to commercial property, with the number of residential landlords diversifying into commercial property tripling in the past three years. They are now opting for shops, restaurants and offices as alternatives, with retail units and small offices proving particularly popular.

## A DIFFERENT MARKET

Landlords opting for commercial property will need to be able to evaluate a business and the quality of a tenant when considering offering a commercial tenancy. With businesses like cafes and small shops, it's important to know the local area and be able to gauge if the business is likely to succeed. Commercial property landlords will need to familiarise themselves with the rules surrounding commercial leases, the rights a landlord has and the responsibilities of the tenant.

Commercial property can offer various benefits. The yields are generally higher and many of the costs that a landlord has to deal with under a residential tenancy are the responsibility of the tenant under a commercial let.

**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.**

## DOWNSIZING CAN EQUATE TO THE COST OF TWO CRUISES

Many people approaching retirement think about the possibility of downsizing to a smaller property as a way of releasing additional cash to supplement their income. After all, if they have lived in a large family home for many years, the chances are that, thanks to the continuing rise in house prices, they could have built up a considerable amount of equity.

However, according to recent research[1], it can cost nearly 5% of the value of the property, equating to as much as two luxury holidays to make that move. In England, it's estimated that the average cost of downsizing is £17,483, more than the price of two Caribbean cruises for two. These figures are based on selling a family home at an average price of £381,211, and buying a two-bedroom apartment at an average price of £268,174.

The costs included in the calculation are estate agency fees, stamp duty and legal fees. It also allowed for a homebuyer's report and removal costs.

### DOWNSIZING FOR A PENSION

It's estimated that around three million homeowners are currently relying on downsizing their home to fund their pension. This strategy could be set to fail, not least because the amount raised may not fund sufficient income for your retirement needs. In addition, many people approaching retirement may have mortgage debt outstanding, or have family members still living at home. With the state pension age gradually increasing, and more people opting out of choice or necessity to work on past their normal retirement date, downsizing may not be a viable option. Plus, this strategy assumes that it's easy to find a suitable smaller property, and this is not a given.

Former pensions minister Steve Webb, believes that: *"Hoping to live purely off the value of your home could be a 'downsizing delusion' for millions of people."*

Making provision for your retirement requires thought and planning; seeking advice will ensure you have suitable plans in place.

[1]OwnSellers, 2016

## WHY IT'S A SHAME THAT MANY UK ADULTS DON'T HAVE LIFE COVER

Life insurance may not be at the top of many people's 'to do' list, but arguably it's one of the most important financial products anyone can take out, and one of the best ways of leaving loved ones provided for financially.

Life insurance doesn't just pay a lump sum on death or (with a combined policy) the diagnosis of a critical illness, it can (with other add-ons or in 'whole of life' form) help provide an income for families hit by an accident, sickness and unemployment, help parents pass their wealth on to future generations and play a major role in inheritance tax planning too.

A recent study[1] has shown that only around 26% of UK adults have any form of life insurance. What this figure means is that too many UK families are risking the consequences of life's unexpected or unwelcome events. In the event of a death, diagnosis of a serious illness, accident or unemployment there would be no lump sum pay out or income payment from an insurance policy to fall back on.

### WHY THIS IS SO

One reason given was a belief that insurance companies don't pay up in the event of a claim. However, the most recent industry figures show that insurers pay out 97.2%[2] of all claims. UK companies pay out over £10m every day on protection policies, including income protection, critical illness and life insurance. When they don't pay out, it's usually because of incorrect information having been provided by the policyholder when the policy was taken out.

Cost is often cited as a reason for not taking a policy. However, an analysis of premiums paid by respondents in the research shows an average life insurance policy premium of £21.28 per month for over £120,000 of cover. The average critical illness cover premium reported was £30.58 per month for over £71,500 of cover. This represents a relatively small outlay that could mean real peace of mind.

[1]Royal London, 2017
[2]Association of British Insurers, 2016

## HOW TO PAY YOUR MORTGAGE OFF EARLY

Making plans to pay off your mortgage early is a great idea. It will mean that you can put the money you no longer pay out each month to good use, but how practical is it when people are overwhelmed with day-to-day expenses? Here are a few ideas to help you consider the options.

### PAY MORE THAN YOUR SET MONTHLY PAYMENT

If you increase your mortgage direct debit so that you pay back more than your normal payment, it will have the effect of shortening your mortgage term and reducing the amount you pay back in total. Common sense, yes, but you would be surprised at how small amounts here and there really do add up. It doesn't have to be every month, but if you get in the habit of using any extra cash here and there, over time you will be thrilled you made the effort.

### SHORTEN THE REPAYMENT TERM

While lenders tend to use a term of 25 years when illustrating repayment terms, this isn't set in stone. If you can demonstrate that you can afford the higher monthly repayments, you can ask for a loan for a shorter number of years. The shorter the term, the cheaper the loan will be overall as you will pay less interest.

### USE A BONUS, WINDFALL OR INHERITANCE

If you find yourself in the lucky position of coming into money, then consider using some or all of it to repay some of your mortgage as a lump sum payment.

### THINK ABOUT OFFSETTING

With an offset mortgage, although your mortgage won't be paid off earlier, the total savings balance that you hold with your lending bank or building society effectively reduces the amount of the outstanding loan on which interest is charged. So, if you have savings of £20,000 with them and a £200,000 mortgage, you'd only be charged interest on £180,000.

### POINTS TO NOTE

If you have loans or credit card debts, it may make sense to pay these off first. Also, some mortgage lenders impose early redemption penalties or stipulate a minimum you can over pay.

### GET A MORTGAGE REVIEW

If it's been a while since you took out your current mortgage, or your existing deal is nearing its end, then it's an ideal time to take mortgage advice to see if there's a better, more cost-effective mortgage deal available that would be right for your circumstances. With interest rates remaining low, mortgage rates continue to be very competitive.

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## IS IT TIME TO REMORTGAGE?

Recent figures from Moneyfacts show that the motivation to remortgage has hit its highest level since 2008, and many market watchers think that this trend looks likely to increase over the coming year.

### WHY REMORTGAGING CAN MAKE SENSE

When your mortgage deal ends, your lender may automatically move your mortgage to their Standard Variable Rate (SVR), which normally rises and falls in line with the Bank of England base rate.

The average SVR in February of this year stood at 4.56%. Back in February 2015, the average two-year fixed deal was 3.14%. So, this means that borrowers who have reached the end of their deal would see a rise of 1.42% if they reverted to the typical SVR. This is the highest increase recorded since November 2008. By contrast, the average two-year fixed mortgage rate is now around 2.33%, so by remortgaging, the same borrowers could enjoy a reduction of 0.81%, which could represent a welcome drop in outgoings.

### A CHANGE OF ATTITUDE IS NEEDED

Interestingly, a study conducted by YouGov, shows that just 28% of those with a mortgage have switched provider to secure a more favourable deal at the end of their fixed-rate deal. By comparison, 50% of people have switched their energy provider to save money. Whilst the saving to be made by switching to a different gas and electricity supplier can be hundreds of pounds, the savings to be made from switching mortgage lenders could amount to thousands of pounds over the term of a typical loan.

There are currently estimated to be around three million people paying their lender's SVR on their mortgages. So, if you're one of them, this could be a good time to get some professional help and advice from a mortgage adviser to see if you could switch to a more suitable mortgage deal.


**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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# CAN THE GOVERNMENT FIX THE PROPERTY MARKET?

Most commentators would now agree that the UK housing market is broken. There simply aren't enough homes of the right type and tenure to cater for the UK's escalating housing needs.

Increasing home ownership has long been a popular government policy that has proved challenging. Getting onto the housing ladder is still considered a major goal in the UK, whereas many of our European counterparts simply rent their homes throughout their lives.

## PUTTING THE PROBLEM IN PERSPECTIVE

The Economist reports that in 2015, the median house price in England and Wales was roughly nine times median earnings, putting house purchase out of the reach of many young people. In the past 25 years, the rate of home ownership has fallen by 30 percentage points amongst those aged 25 to 35. Although it has long been a government target to build at least 250,000 new dwellings each year, the last time this was actually achieved was 1979–80.

Various alternative initiatives to increase the housing stock have been voiced by ministers, such as selective building on less-attractive parts of the green belt, and plans to incentivise older homeowners to move from their family-sized homes into smaller purpose-built retirement properties. However, these ideas have yet to materialise as policies.

## GOVERNMENT INTERVENTION

Successive governments have vowed to fix the problem. The current government has recently published a housing white paper that updates its national planning policy to include the provision of starter homes available to households with an annual income of less than £80,000, or £90,000 in London.

However, in a new departure, the focus now includes the provision of more property for rent. The government will allow developers to offer cheaper rental property as well as affordable homes.

Sajid Javid, the Communities Secretary, said that the government would push local authorities and housebuilders to work faster, using compulsory purchase orders if necessary, and by reducing the time allowed between the granting of planning permission and the start of building from three to two years. Planning rules will be relaxed in areas around transport hubs to allow for greater housing density. There is to be more emphasis on medium-rise development.

## PRESSURE PUT ON LOCAL AUTHORITIES

In the white paper, the government says it intends to employ a carrot and stick approach with local authorities. All authorities will be encouraged to develop an up-to-date plan with their communities that meets their housing requirements; where they don't, the government will intervene. On the plus side, local authorities will be offered higher fees and new capacity funding to develop planning departments, and more funding for infrastructure.

The construction industry points to a shortage of skilled labour in the major trades as a key factor impeding progress. There are also concerns about what might happen to the labour force following the UK's departure from the EU; doubts exist as to whether the UK's training programmes for bricklayers, plumbers and plasterers can produce enough home-grown talent to meet the skills gap.

# INTEREST-ONLY MATURITIES LINKED TO EQUITY RELEASE RISE

Research by the Financial Conduct Authority has found that 600,000 interest-only mortgages are due to be redeemed by 2020. Around half of these borrowers are expected to have a shortfall in their savings, with a third of shortfalls expected to exceed £50,000.

Research has shown that one in five people who choose equity release are using part of the value tied up in their properties, to clear outstanding mortgage debt. Equity release is increasingly providing a valuable lifeline to interest-only borrowers facing a shortfall at maturity. Figures[1] show that just 17% of people used their equity release for this purpose in 2010, but this had risen to 22% by the first half of 2016, mirroring the rise in interest-only maturities.

Alternatives like selling the property to clear the debt can be a step too far, bringing with it the upheaval of finding an alternative place to live. Equity release, by contrast, provides a means of staying put in familiar surroundings by taking out a lifetime mortgage secured against the property.

Equity release reduces the value of your estate, so you should discuss it with your family and take professional advice.

Equity release may require a lifetime mortgage or home reversion plan. To understand the features and risks, ask for a personalised illustration.

[1]Key Retirement, 2016