

the mortgage

The mortgage bulletin from MFS Independent Financial Advisers

MFS

INDEPENDENT FINANCIAL ADVISERS

Who would want to be a house buyer or seller right now? Hardly a day passes without conflicting accounts of what's ahead in the housing market.

Need a Guide?

» Leading indices of property price futures have predicted **price falls** of up to 30 per cent by 2011*, while a National Housing Federation (NHF) report - which just looked at the English market - has forecast average **prices rising** 25 per cent by 2013**. (Sources: *Financial Times, 4 August 2008, **NHF, July 2008)

What this is saying is that the outlook is mixed and uncertain, but all is not doom and gloom.

This is because when it comes to residential property, everyone needs somewhere to live, which assists demand. And there is also the need for more homes due to net immigration, smaller households and a rising student population.

Yet according to the same NHF survey, it states that the supply of new housing is falling, with only 75 per cent of the new

homes required being built each year.

And, despite the recent turmoil in the financial markets, there are also signs for possible optimism. The US Government has put in place the \$700bn bail-out scheme, and the UK Government has introduced a number of measures, including a rescue package for the banking system worth up to £50bn (in return for shares in them), and £200bn will be made available for short-term loans. Along with the cut in the Bank Base Rate, these measures may assist the financial markets.

So where does this leave you on the mortgage front? And should you go for a **Fixed rate** or a **Tracker rate**?

In 2007, fixed rates accounted for

73 per cent of all mortgages taken out, although this figure dropped to 59 per cent for the first six months of this year. With trackers increasing from 16 per cent to 27.5 per cent over the same period, reflecting their growing popularity.

(Source: Council of Mortgage Lenders, August 2008)

With so many issues affecting the marketplace, it can be difficult to decide on the best route forward. All the more reason why you should look for professional guidance.

Why not give us a call?

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FOR YOUR **FREE** INITIAL
CONSULTATION CALL

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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**.

In this issue we look at the **Current Marketplace**, highlight some opportunities that may be available on **New Builds**, look at **Critical Illness** cover, consider **Buy-to-Let** properties in university towns, outline the merits of a **Commercial Mortgage** and end with a look at options for **First-Time Buyers**.

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



The Real Deal

First-time buyers - struggling to find the money to buy their first home - and existing homeowners should keep an eye out for some of the special deals that house builders are offering.

» At the time of writing, a number of house builders were offering newly built homes at 75 per cent of the full purchase price on selected developments. They are doing this by giving buyers a 25 per cent interest-free loan (or charging a nominal interest rate) against the outstanding amount.

The loan is generally paid back as 25 per cent of the property's 'open market value' at any time up to resale or after 10 years, whichever is sooner.

Assuming you have a 15 per cent

deposit for the total price, the offer of a 25 per cent loan means that you only need a mortgage of 60 per cent of the property's value, possibly making you eligible for some of the better mortgage rates (albeit the lender may factor in that the builder has a second charge on the property to cover their own loan).

Providing the cost of the home on completion is not artificially inflated, this may be a good deal. However, you must remember that you will generally need to repay the outstanding 25 per cent after 10

years, or earlier, if you move before then. And if the 'open market value' of the property has increased, then the amount to repay on the loan would increase as well.

Government initiative

Additionally, the Government has recently announced their own new shared equity scheme, called **HomeBuy Direct**, to help up to 10,000 first-time buyers, whose household income is less than £60,000, to buy a home over the next two years.

Buyers will be offered an equity loan of up to 30 per cent of the house value - interest-free for five years - co-funded by the Government and the house builder. Exact details beyond this period had not been finalised at the time of writing.

Please get in touch if you'd like help in arranging a mortgage to purchase your new build property.

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



Where am I?

If you were too ill to work because of a serious illness, would you have enough savings to continue paying the mortgage, and all the costs of running a home and putting food on the table?

If you are employed, you may have the buffer of three to six months' disability cover as an employee benefit, which means that your employer will pay the bulk of your wages for that period of time. After that, you would have to fall back on State benefits of limited value. You are even more vulnerable if you are self-employed.

That's why both groups may wish to consider taking out some form of **critical illness** cover.

Critical illness insurance 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.

According to Defaqto, the average critical illness payout in 2007 ranged between £34,000-£96,000 across the nine insurers that released this information.

(Source: Defaqto, *Critical Illness Report 2008*)

The actual premiums you would pay are obviously calculated against factors such as age, health, level of cover and medical history.

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

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

TARGETING STUDENTS

The opportunities within the Buy-to-Let market are mixed but choose the right property in the right location and you may be on to a good long-term investment.

» Take student housing. With the number of full and part-time students expected to surpass 3 million by 2014 (up from 2.34m in 2007), there is likely to be strong ongoing demand for rental accommodation in most university towns.

(Source: Savills, *Student Housing Report, Summer 2007*)

Comparative yields

Also, the average university property delivers a gross yield of 7.17%, which is in excess of the average UK gross yield of 6.4%. (Source: *Paragon's Buy-to-Let Index, June 2008*)

The gross yields above reflect the ratio of the annual rent to current property values, although some landlords may also apply it to the price they originally paid for the property to gauge their return.

And according to Stuart Law of Assetz, a property investment company, student properties are more likely to keep their value through the current downturn. As the student market tends to be stable

and rental demand will remain strong while the supply of accommodation in halls-of-residence fails to keep up with the increase in student numbers.

There may also be a good supply of suitable properties for purchase as some Buy-to-Let landlords have sold out, for tax reasons or due to higher borrowing costs.

But remember, you will have some legal responsibilities. For example, student rentals are likely to come under the rules governing 'Houses of Multiple Occupation' and having a gas safety certificate for each property is a legal requirement.

On the financing front, Buy-to-Let mortgage rates have been coming down, although the lending criteria remains quite stringent.

You will generally need a 25 per cent deposit to obtain the more competitive deals and many lenders may require the monthly income from rent to be at least 125 per cent of the monthly mortgage payment.

Do get in touch if you are involved or would like to get involved in Buy-to-Let properties.

The Financial Services Authority does not regulate most Buy-to-Let mortgages. 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. Past performance is not a guide to future performance.

Whether it is a shop, factory, warehouse or office premises that you want to buy, there is nothing like owning your own commercial property and being free of the hassle of having to negotiate with a landlord every few years.

Not only can renting from a commercial landlord seem like money down the drain, but also there can be substantial tax breaks if you buy a commercial property within certain types of pension scheme (although you will need professional pensions advice if you are considering this option).

The rate you can obtain from a lender may be negotiable on an individual basis and what's offered will reflect the type of property, its location, your creditworthiness and that of the tenant (whether yourself or another company).

Most lenders will currently only lend up

Stamp Duty

In September, the Government announced that the Stamp Duty threshold for residential property has increased from £125,000 to £175,000, for a period of one year. This action is designed to help encourage potential buyers into the marketplace.

to 75 per cent of the property's value and you will need at least one set of certified accounts to show the lender.

Since the onset of the credit crunch it has become harder to obtain funding, but there are still a number of lenders, other than the main High Street banks, which may be willing to lend.

The Financial Services Authority does not regulate most Commercial mortgages.

shop owner

» With 4.7 million small businesses in the UK* (up from 4 million in 2003), there's a growing market of self-employed individuals and small to medium enterprises who may want to buy their own premises.

(*Source: *Federation of Small Businesses, May 2008*)

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

Share and share alike

First-time buyers (FTBs) are unable to afford a terraced property - traditionally the least expensive property type - in **71 per cent** of towns across the UK, compared to just **11 per cent** in 2002. (Source: Halifax, December 2007)

That's one of the reasons why the need to find innovative solutions for novice buyers has rarely been greater.

Sharing with others

One option is that FTBs could think about the possibility of buying with a group of friends, or siblings, in order to reduce their share of the purchase price.

While this can be a great way to get your foot on the property ladder, you need to think this type of purchase through carefully. What, for instance, will you do if one of the household wants to sell their equity share? Will the rest of you be able to find a new housemate willing to buy out their share, or would you be able to rent to another individual to help with the mortgage costs?

Also have you got enough for the deposit? The bigger the deposit, the better - if you want to access the best deals.

Shared ownership

Alternatively, Housing Associations offer various shared ownership deals whereby FTBs can buy a percentage of a property and pay a rent for the balance. The advantage is that you don't have to borrow so much and you will not have to stump up such a large deposit.

This may mean you only need to raise a deposit and funding for around 50-80 per cent of the property's value.

Although, you need to remember that if you subsequently want to increase your equity share, you have to do so at the property's prevailing market value. If house prices continue to fall, this would clearly work in your favour. If house prices rise, you could find it more difficult to buy any further share in the property.

The availability and range of schemes varies throughout the UK, so do find out if there is a shared ownership scheme in the area you're interested in.

For example, under the 'First Time Buyers' Initiative', run by national regeneration agency, English Partnerships, you must be able to afford a mortgage for at least half of the property's purchase price and English Partnerships will contribute the rest via a direct payment to the developer.

For the first three years you only pay your mortgage, and thereafter you also pay an additional charge to English Partnerships based on a percentage of the contribution they made.

Get in touch with us and we'll endeavour to find the mortgage deal that best suits your needs.

■ We treat all the information provided by you with the utmost care and security. Any details you give will remain confidential and will only be disclosed with your consent, where we are legally obliged to do so or where we have a duty to the public to disclose that information. The information collected by us will be used only for the purposes stated by us. Where we use your personal details to communicate to you information about other products and services we will give you the opportunity to tell us that you do not wish for it to be used in such a manner. Please do not provide your details to us if you do not consent to the above.

PLEASE GET IN TOUCH WITH ME!

I would like to discuss the following ticked topics with you. I understand that the request is without obligation. Also, by providing my telephone number, I give you permission to call.

- | | | |
|--|--|---|
| <input type="checkbox"/> Mortgage health check | <input type="checkbox"/> Remortgaging | <input type="checkbox"/> First-time buyer |
| <input type="checkbox"/> Critical illness | <input type="checkbox"/> Buy-to-let | <input type="checkbox"/> Commercial mortgages |
| <input type="checkbox"/> Buying a second home | <input type="checkbox"/> Secured loans | <input type="checkbox"/> Building & Contents |
| <input type="checkbox"/> Other Protection products | <input type="checkbox"/> General mortgage info | |

Other (please specify) _____

Please do not send any further issues

Name (Mr/Mrs/Ms) _____

Address _____

Email _____

Tel (+ best time to call) _____ Signature _____

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Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on your mortgage.

We are Independent and, for arranging a mortgage, we offer our clients the choice of either paying a fee which is typically 0.40% of the loan advance, 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 (October 2008).

■ 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.

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