

# the mortgage

The mortgage bulletin from MFS Independent Financial Advisers

# Working together

The credit crunch has had, and will continue to have, a marked effect on the UK lending market - and may influence what you can borrow.

talk to us, as we know what's available out there to meet your needs and may have access to deals not readily available on the high street.

*(Source: \*Moneyfacts, July 2007 v's January 2008)*

Future interest rate and house price movements will also have an impact on lending criteria, so if you plan to remortgage in 2008, we can discuss the most suitable route for you - whether it's repayment or interest-only, fixed or variable rate, right down to the type of mortgage product required.

Even if you don't plan to remortgage, but are concerned that your financial position may change, then it may also make sense to get in touch with us.

### How 2008 may pan out

Most mortgage commentators reckon that the property market will broadly flatline in 2008 and we will not see much change in house prices (perhaps plus or minus 2 per cent nationally), although there could be quite wide divergences around the country.

This should not be a concern for most homeowners, given that house prices in the

→ (contd on page 2)

» It may seem strange that problems arising in the USA from individuals with a poor credit history, struggling with mortgages they can't afford, can have such an impact over here.

The problem is that many of these so-called 'sub-prime' mortgages were sold onto other banks across the world, which means that some UK financial institutions have been exposed to these risks as well.

This has led to banks being unwilling to lend to each other because they don't know where sub-prime mortgage debt is lurking in the

banking system.

It is this drying up of banks willing to lend to each other which caused the problems at Northern Rock, as it raised the bulk of its mortgage funds from other banks, not from investors' deposits.

The upshot across the board is that lenders are having to restrict the amount they lend - hence UK borrowers are facing more stringent lending criteria and lower loans-to-value (LTVs), as lenders are more picky as to whom they lend to.

The credit crunch has also led to a cull in the number of mortgage products available.\* That's why it makes sense to

MFS

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**Welcome....** to this newsletter, which covers some of the key issues of the moment that affect mortgages and mortgage-related products - and sets out how it **may help you.**

In this issue we look at the effects of the **credit crunch**, cover the **Buy-to-Let** marketplace, highlight the importance of **Protecting** yourself, see if it's time for a **Financial Spring Clean** and end with a look at **Home Improvements.**

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

Buy-to-let investment has been a stunning success for many landlords over the last decade as they've benefited from rising house prices, renters who can't afford to buy, strong net immigration, low interest rates and favourable tax breaks.



# RENT REVIEW

» But some gloom mongers are saying that the buy-to-let market has had its day and that landlords face tough times ahead.

Yet recent research shows that nine out of ten buy-to-let landlords surveyed say that they have no intention of selling their properties for nearly 17 years and that 40 per cent of them expect to invest further this year. (Source: *Association of Residential Letting Agents, January 2008*)

Part of their confidence may be due to the large numbers of migrant workers who

continue to come to the UK to work for a few years and potential first-time buyers who are renting because they can't afford to buy. So there may be strong rental demand for the foreseeable future.

Providing you do your homework, talk to letting agents and buy in a location where there is a strong rental demand and suitable properties for letting, you are halfway there.

While it is true that the credit crunch has made lenders more cautious and buy-to-let mortgages slightly more expensive, the tax breaks on buy-to-let investment continue to be extremely favourable.

You can offset your mortgage interest payments (plus arrangement fees and property repair costs) against tax on the rental income you receive.

On the downside, there have been some regulatory changes which affect landlords, so make sure that you take suitable legal advice, to ensure you are compliant.

As for the marketplace, Stuart Law, chief executive of property company, Assetz, says: "Rents have risen by as much as 10 per cent in many regions (and higher in London) over the last year, and I forecast a further 10 per cent rise in 2008."

(Source: *Assetz press release, December 2007*)

So contrary to recent reports, buy-to-let is very much alive and kicking. Do get in touch if you want to find out more.

**Most buy-to-let mortgages are not regulated by the Financial Services Authority.**

**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.**

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

## ... Working together (continued)

UK have almost trebled over the last decade. (Source: *Nationwide, Q4 1997 v's Q4 2007*)

Those facing problems will be first-time buyers and recent purchasers who have taken out around 100 per cent mortgages - and a small fall in property values could technically put them into negative equity.

But negative equity is only a problem if you need to move, so don't be too alarmed by some predictions. And comments by the Bank of England in November 2007 were taken to signal the possibility of around two cuts in its base rate in 2008, dependent on market conditions.

So it's not all bad, but the marketplace is tighter than it was, and perhaps we can help identify the best course of action for you.

**You may have to pay an early repayment charge to your existing**

**lender if you remortgage.**

## Check your credit rating

Aside from making sure you've not been a victim of identity fraud, it's always a good idea to keep tabs on your credit rating to ensure that your files are correct and up-to-date.

A mistake on your records could adversely affect your access to the best deals or even prevent you from getting credit at all.

You can do this by contacting the following agencies and asking for a copy of your credit file. They will charge a small fee, but if you find a mistake, you can ask for it to be corrected.

**Experian** - Tel: 0844 481 8000

[www.experian.com](http://www.experian.com)

**Equifax** - Tel: 08700 100 583

[www.equifax.co.uk](http://www.equifax.co.uk)

**Callcredit** - Tel: 0113 244 1555

[www.callcredit.co.uk](http://www.callcredit.co.uk)

If the agency amends your file, it must send the details to any lender who has asked about you in the past six months, and use the new information in future. You can also ask for a note to be added to your file explaining special circumstances as to why you may have failed to pay a debt.

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

# From the horse's mouth

With an uncertain outlook for the economy, it makes sense to protect yourself and your loved ones against being unable to pay your mortgage because of death, accident, sickness or redundancy.

» You can buy insurance against the eventualities set out above. Term assurance - which is life insurance for a specific period, such as the duration of your mortgage - is particularly good value, because of fierce competition and rising life expectancy.

There are also various forms of products which are designed to protect your mortgage payments should you have an accident, illness or face unemployment, but whichever you take, it is essential you complete the application form completely honestly - something we can advise on.

If you buy a protection policy on a non-advised basis you cannot (by definition) complain about the quality of the advice or receive compensation related to advice. However, in a non-advised sale you may still be able to get redress for other things, e.g. if you were given incorrect information about the product.

So, at the outset, you need to consider the possibility that the insurer may refuse to pay out if you failed to complete the form correctly or that you were not eligible for a policy in the first place, particularly with regard to medical information.

The Association of British Insurers (ABI) is aware of this problem and recently announced that their members will now settle more claims where medical information has not been disclosed, unless the customer deliberately withheld it.

*(Source: ABI, January 2008)*

**So it makes sense to contact us about assisting you in identifying the right policy for your circumstances and support in filling out the forms correctly.**

## Home Information Packs (HIPs)

At the time of writing, a HIP is required to show to potential buyers for any residential property in England and Wales.

The pack includes an Energy Performance Certificate, containing advice on how to cut CO2 emissions and fuel bills. Also included are documents such as a sale statement, searches and evidence of title.

The Financial Services Authority does not regulate HIPs.

## Why writing a Will is so essential

If you die without a will, the laws of intestacy may kick in which could mean that your estate does not pass to those whom you would have wished to benefit.

A will can also be a useful tax planning tool, so either way, just do it!

The Financial Services Authority does not regulate Will Writing.

# Spring Clean

It's that time of year again - when many of us think about spring cleaning our finances.

One option may be to consolidate some of the debt accumulated on credit or storecards, into one manageable loan, possibly at a lower monthly cost, via a **Secured Loan**.

This is designed for homeowners who can use part of the equity in their property to secure a loan which will sit as a second charge on top of their mortgage, which may be with a different lender.

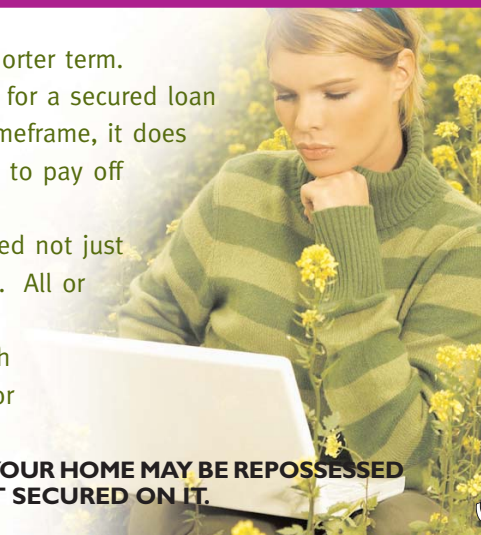
However, taking out a long term loan such as this can mean that you end up paying more in interest payments, than if you paid off credit and

storecard debts over a shorter term.

But as the repayments for a secured loan are set over an agreed timeframe, it does provide a disciplined way to pay off borrowings.

And a secured loan need not just be for debt consolidation. All or part of the loan could be used for other items, such as home improvements, or the cost of a wedding.

**THINK CAREFULLY BEFORE SECURING OTHER DEBTS AGAINST YOUR HOME. YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE OR ANY OTHER DEBT SECURED ON IT.**  
The Financial Services Authority does not regulate Secured Loans.



## Moving house can be such a hassle, it's sometimes preferable to just stay put and do up your existing home.

Creating more living space or improving what you have, not only makes your home more pleasant to live in, but increases its value for when you do decide to move.

So what are the most beneficial changes you can make to a property? Estate agents tend to recommend loft conversions, extensions, conservatories and garage conversions because you increase the living space in your property.

Peter Bolton King, chief executive of the National Association of Estate Agents says: "Building out into these areas can often add value to a home and negate the need for a costly and stressful move. One area which is increasingly being considered for conversion is the garage, particularly integrated garages."

To give you an idea of what this might cost, the Royal Institution of Chartered Surveyors gave us the following ball park figures in December 2007, (which include VAT).

### Garage conversion:

6x3m space, includes removal of door and bricking up opening, new opening to house, insulation and plasterboarding; **£9,000.**

### Loft extension:

6x5m, includes relocating existing tanks, softwood framing and plas-

terboard to walls and ceiling, new staircase, new electrics and openings in roof for windows, including dormer windows; **£28,000.**

### Rear extension:

3x3m single storey extension; **£15,500;** two storey extension; **£25,500.**

### Conservatory:

3x3m, including forming opening in existing external cavity wall and new pair of glazed doors; **£11,000.**

### Refurbishment of a derelict basement:

3x5m; **£9,000** without tanking and **£22,000** with tanking.

But remember that prices can vary considerably due to the extent of work undertaken, by region and by the quality of materials used. So be sure to factor this into your budget, along with the additional decorating and finishing costs. And always get three quotations from recommended builders.

Remortgaging and secured loans can be a good way to fund home improvements, if you don't already have the cash available. Why not contact us to see what we can do for you.

# Creating more space



### Also don't forget the need for:

- Planning permission from your local authority for substantial jobs.
- Building regulations consent, usually for changes in the structure or services of a property, such as an internal wall or connection to a sewer. Contact your local authority building inspector to confirm whether this is necessary.
- Special clearance if you live in a listed building or conservation area. Check with your local authority planning officer.

■ 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 at or 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"/> Buy-to-let |
| <input type="checkbox"/> Insurance and protection     | <input type="checkbox"/> Secured loans        | <input type="checkbox"/> HIPs       |
| <input type="checkbox"/> Commercial mortgages         | <input type="checkbox"/> Buying a second home | <input type="checkbox"/> Wills      |
| <input type="checkbox"/> General mortgage information |   |                                     |

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 (January 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.