Summer 2008

# the mortgage

The mortgage bulletin from MFS Independent Financial Advisers

MFS

INDEPENDENT FINANCIAL ADVISERS

# Looking ahead

## Since the credit crunch took hold in August 2007, mortgages have been much harder to access - but help is at hand.

More recently we have seen concerted action by Central Banks around the world to help improve liquidity within the banking system, encouraging banks to lend to each other, which will hopefully lead to better mortgage options for you.

In the UK, the Bank of England has now injected billions of pounds into the financial markets to improve confidence, with it also swapping some of the banks' mortgage-backed assets for much safer UK Treasury Bills.

This may help to create a better climate for credit, and perhaps enable lenders to relax their existing lending criteria - with possibly the prospect of more competitive mortgage rates into the future.

However, no one really knows what's ahead and at times like this it makes sense to talk to us about your financial needs.

With lenders having tightened their lending criteria by imposing lower loans-to-value (LTVs), and being more discerning about who they lend to, this may affect your ability to access some loans.

So while you may have a perfectly good credit rating, that is acceptable for most lenders, do remember that each time you apply for credit, this may be recorded on the files held by credit reference agencies. And could result in a downgraded rating for you. We may be able to identify options for you to access credit, without unnecessarily affecting your rating in the process.

### And it's not all bad news!

Whilst the International Monetary Fund (IMF) says that the credit crunch could cost around $945bn (£482bn), let's put that sizeable amount into perspective. The positive performance in house prices over the last decade has helped us reach a stage in the 'UK alone', where unmortgaged residential housing wealth now stands at around £2,500bn!

*(Sources: IMF Global Stability Report, April 2008; Council of Mortgage Lenders, [CML] April 2008)*

For mortgage borrowers, this means that on average they may have around 45 per cent of 'free equity' in their properties. So while, the higher LTV products have disappeared, it's not all bad

➔ **(contd on page 2)**

MFS

INDEPENDENT FINANCIAL ADVISERS

FOR YOUR **FREE** INITIAL CONSULTATION CALL

**020 8543 6244**

235 THE BROADWAY WIMBLEDON SW19 1SD

**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 positive developments concerning the **Credit Crunch,** set out how **Auctions** could work to your advantage, consider the merits of **Offset Mortgages** and finally the importance of having decent **Protection** cover.

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

Buying at auction has its risks, but for those who are well prepared and aware of the pitfalls, it may lead to picking up your future home - or an addition to your buy-to-let portfolio - at a decent price.

# Going once, going twice...

» Properties sold at auction are often due to repossessions, vendors wanting a quick sale and local authorities and property companies selling off old properties.

Figures from the Essential Information Group show that in the first quarter of 2008 there were 6,389 residential properties offered at auction. This quarterly amount may increase, as repossessions are expected to rise as the credit crunch impacts upon the marketplace.

### Save money?

Research by Standard Life Bank shows that 98 per cent of the people they questioned anticipated saving money by purchasing at auction. With around a half expecting to achieve a discount of 10-33 per cent off the property's market value.

*(Source: Standard Life Bank, June 2007)*

But the pitfalls of buying property at auction should not be underestimated. If you decide to get a full survey done, remember that if your bid fails, you will have wasted your money. Alternatively, if you don't get a survey done, you could be buying a property with hidden defects which could cost you more to rectify than any money you save by buying at auction.

Either way, you should try to obtain as much information about the property in advance, unless you are prepared for possible nasty shocks.

Once the gavel comes down, the property is yours and you have to stump up (usually) 10 per cent of the purchase price (and generally a buyer's fee too). You then have around 28 days to complete the conveyancing and pay the balance in full, so be sure to warn your solicitor of the strict deadlines. If you fail to complete on time, you may lose your deposit and the vendor can resell the property and charge you for any shortfall in the eventual sale price.

So if you are considering buying at auction, be sure to give us a call in advance, so that we can look at the various financing options available to you, which could encompass residential or buy-to-let mortgages or shorter-term bridging loans, ahead of getting the longer-term funding in place.

**Most Buy-to-Let mortgages and Bridging Loans are not regulated by the Financial Services Authority.**

### ... Looking ahead (continued)

news for creditworthy borrowers.

*(Source: CML forecast for end of 2008, April 2008)*

However, with less money to lend in the current climate, new mortgage deals are being snapped up rapidly, so you may need to act quickly. Did you know that if you are coming to the end of your loan term, some lenders are willing to set aside a new mortgage for you for three months (possibly even six) prior to you needing it. That assumes that you will meet their borrowing criteria, and there may also be a reservation fee.

This may mean that you can have the peace of mind of knowing that you have funding in place once your current mortgage term comes to an end. And may not need to revert to your lender's Standard Variable Rate (which may be higher than the special deal you are offered, but not necessarily so).

Furthermore, while there are likely to be ongoing house price corrections, the economic fundamentals are still strong, with low unemployment (for now), a net flow of immigrants (who need housing), and a shortage of housing stock in many areas.

Of course, these are still difficult times ahead, and none of us can confidently predict what the future holds, but perhaps now, possibly more than ever, it makes sense to take professional advice.

Do get in touch if you'd like to discuss your borrowing requirements.

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

## Payments Calculator

Here's how to use the calculator: A £100,000 mortgage over 25 years, charged at a 5.75% interest rate would cost 100 x £6.29 (for Repayment) = £629 per month.

Monthly payments for a mortgage per £1,000 borrowed over 25 years

| % Interest rate | Interest-only* Payment (£) | Repayment Payment (£) |
|---|---|---|
| 4.50 | 3.75 | 5.55 |
| 4.75 | 3.96 | 5.70 |
| 5.00 | 4.17 | 5.84 |
| 5.25 | 4.38 | 5.99 |
| 5.50 | 4.59 | 6.14 |
| 5.75 | 4.80 | 6.29 |
| 6.00 | 5.00 | 6.44 |
| 6.25 | 5.21 | 6.59 |
| 6.50 | 5.42 | 6.75 |
| 6.75 | 5.63 | 6.90 |
| 7.00 | 5.84 | 7.06 |
| 7.25 | 6.05 | 7.22 |
| 7.50 | 6.25 | 7.38 |
| 7.75 | 6.45 | 7.55 |
| 8.00 | 6.66 | 7.71 |

*(Source: Halifax, May 2008)*

* Excludes any payment to a savings scheme.

The figures shown here are intended as a guide only. The actual amounts that you may have to pay may be more or less than the amounts shown.

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

# BALANCING ACT

**Offset Mortgages have grown rapidly in popularity in recent years because they offer flexibility and tax efficiency for those with savings and fluctuating earnings.**

With an Offset Mortgage, you pool your savings and mortgage with your lender and your savings are then 'offset' against the mortgage capital.

So if your mortgage is, say, £200,000, but you have £30,000 in a savings account with your lender, you will only pay interest on £170,000, thereby reducing the amount of interest you have to pay each month.

In other words, every £1 you have in your savings account is £1 less debt you have to pay interest on.

## Why it makes sense

As savings are normally taxed at source at 20 per cent (with a further 20 per cent liability if you are a higher rate taxpayer), the net return from savings is significantly less in real terms, particularly if you then take into account inflation.

By contrast, if you opted not to earn interest on your savings and, instead, offset them against your mortgage, they are effectively working for you at the same rate of interest as your mortgage.

In addition, because offset mortgages are calculated on a daily basis, your debt is being reduced more quickly than if repayments are applied monthly or annually, as with most standard mortgages.

### How much could I save making overpayments?

| £ Monthly overpayments | Mortgage term | Total £ cost |
|---|---|---|
| 0 | 30yrs | 222,595.83 |
| 50 | 24yrs 6mths | 196,085.72 |
| 100 | 20yrs 11mths | 179,755.26 |
| 150 | 18yrs 4mths | 168,480.56 |

*(Source: Scottish Widows Bank, May 2008)*
Figures assume a £100,000 repayment mortgage, 30 year term, 6.29% mortgage interest rate. The overall cost for comparison is 6.3% APR

## Payment flexibility

Another advantage of offset mortgages is that they give you the flexibility to overpay (see chart), underpay or take payment holidays, providing you have made sufficient overpayments previously to cover this.

So people with fluctuating earnings, commissions, bonuses, or who work freelance and have to set aside a large lump sum to pay the taxman, may want to put this money to good use via an offset.

While offset mortgages are not for everyone, greater flexibility in how you manage your mortgage could be a real benefit if you have irregular earnings.

**Do get in touch to find out more.**

## Value of a Mortgage Broker...

The Association of Mortgage Intermediaries (AMI) 'Value of Mortgage Advice' report examines the value of mortgage brokers to consumers.
The recent report was conducted by independent financial services research company, NMG.
Chris Cummings, Director General of AMI, said: "Intermediaries are able to identify the most suitable product for the consumer at a competitive price. Analysis of consumer attitudes shows they value this advice much higher than that provided by lenders.
The research shows that half of consumers who purchased a mortgage on a direct basis did so from their own bank or building society without considering any other option. A further 39 per cent contacted no more than three lenders. This significantly reduces the likelihood of finding the most competitive mortgage for the individual's own circumstances."
*(Source: AMI/NMG, Value of Mortgage Advice report, May 2008)*


# Repayment or Interest-only?

**In addition to deciding on whether you want your interest rate to be fixed, variable, etc, you'll also need to decide between a Repayment and Interest-only mortgage.**

With an **Interest-only mortgage,** you only pay interest during the term of the mortgage. Separately, you should consider paying an additional amount into a saving scheme to build up a lump sum to pay off the capital. However, most schemes do not guarantee to repay the mortgage, and it is the borrowers responsibility to ensure that the mortgage is paid off at the end of the term.

With a **Repayment mortgage** you pay off part of your capital and part of the interest on your loan each month, so the monthly amount you have to pay to the lender is higher than for the interest-only option.

But with a repayment mortgage, you don't need to take out a savings plan alongside the mortgage, because the capital will have been paid off by the end of the term, provided you have made all the monthly repayments.

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

# Avoid an ill wind

## We live in uncertain times. Hardly a day goes by without gloomy news on inflation, bankruptcies, repossessions and unemployment.

In the City alone, the current estimates for job losses across 2008 and 2009 stand at almost 20,000. And the reverberations from this may well impact upon job security elsewhere in the country.

*(Source: Centre for Economics and Business Research, April 2008)*

So in these uncertain times, an employee would be advised to consider taking out Mortgage Payment Protection Insurance (MPPI).

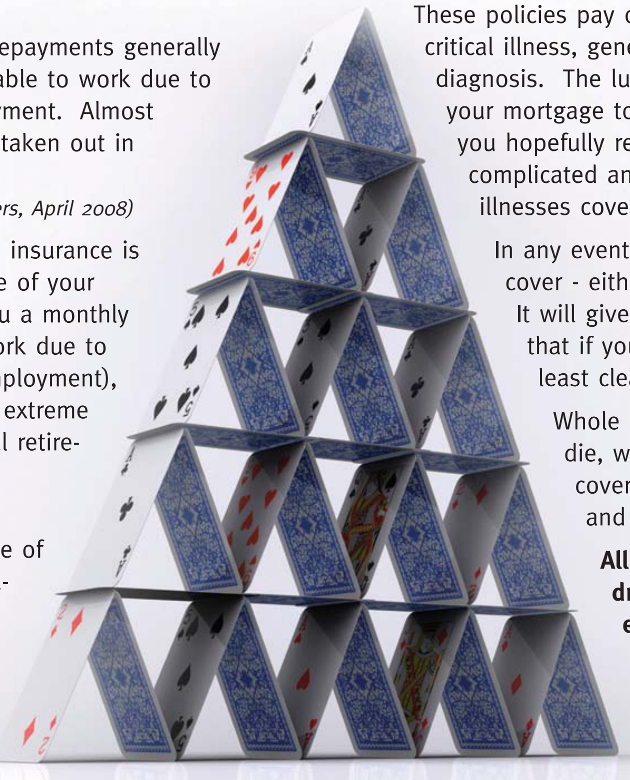
**MPPI** protects your mortgage repayments generally up to 12 months if you are unable to work due to accident, sickness or unemployment. Almost one-fifth of all new mortgages taken out in 2007 added MPPI cover.

*(Source: Association of British Insurers, April 2008)*

Alternatively, **Income Protection** insurance is designed to protect all or some of your monthly outgoings. It pays you a monthly income if you are unable to work due to accident or sickness (not unemployment), however long that may be - in extreme circumstances until your normal retirement date.

The monthly premium you pay will be based on your age, state of health, gender, lifestyle, occupation and medical history.

Income protection, however, is a complex product so it is essential that you take advice. Policies vary considerably with regard to premiums, the delay before payments start (in the event of a claim) and the exact extent of cover.



If you would prefer to receive a lump sum in the event that you were to suffer from a life threatening medical condition such as some forms of cancer, stroke or heart attack, **Critical Illness** insurance might be more appropriate.

These policies pay out if you survive a specified critical illness, generally for 30 days from the date of diagnosis. The lump sum can be used to pay off your mortgage to ease your financial worries while you hopefully recover. Again, the policies can be complicated and can vary widely with regard to the illnesses covered, so advice is important here too.

In any event, you may also need **Life Assurance** cover - either whole of life or term assurance. It will give you the peace of mind of knowing that if you died, your loved ones could at least clear the mortgage.

Whole of life will pay out whenever you die, whereas term assurance will just cover you for the term (of the mortgage) and is, potentially, much cheaper.

**All protection policies have benefits and drawbacks. Drawbacks can include exclusions and limits to the amount of cover. So do consider the most important areas to you and get in touch with us so that we can help identify the best way forward.**

■ 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.

- ❑ **Mortgage health check**
- ❑ **Bridging loans**
- ❑ **Building & Contents**
- ❑ **First-time buyer**
- ❑ **Remortgaging**
- ❑ **Offset mortgages**
- ❑ **Secured loans**
- ❑ **Commercial mortgages**
- ❑ **Buy-to-let**
- ❑ **Protection products**
- ❑ **Buying a second home**
- ❑ **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 ____________

Please put the coupon in an envelope and post **FREE** to:
**MFS Independent Financial Advisers, FREEPOST PAM 4862**

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

**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 (June 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.

Published by BlueStone Publishing. Email: info@bluestonepublishing.co.uk