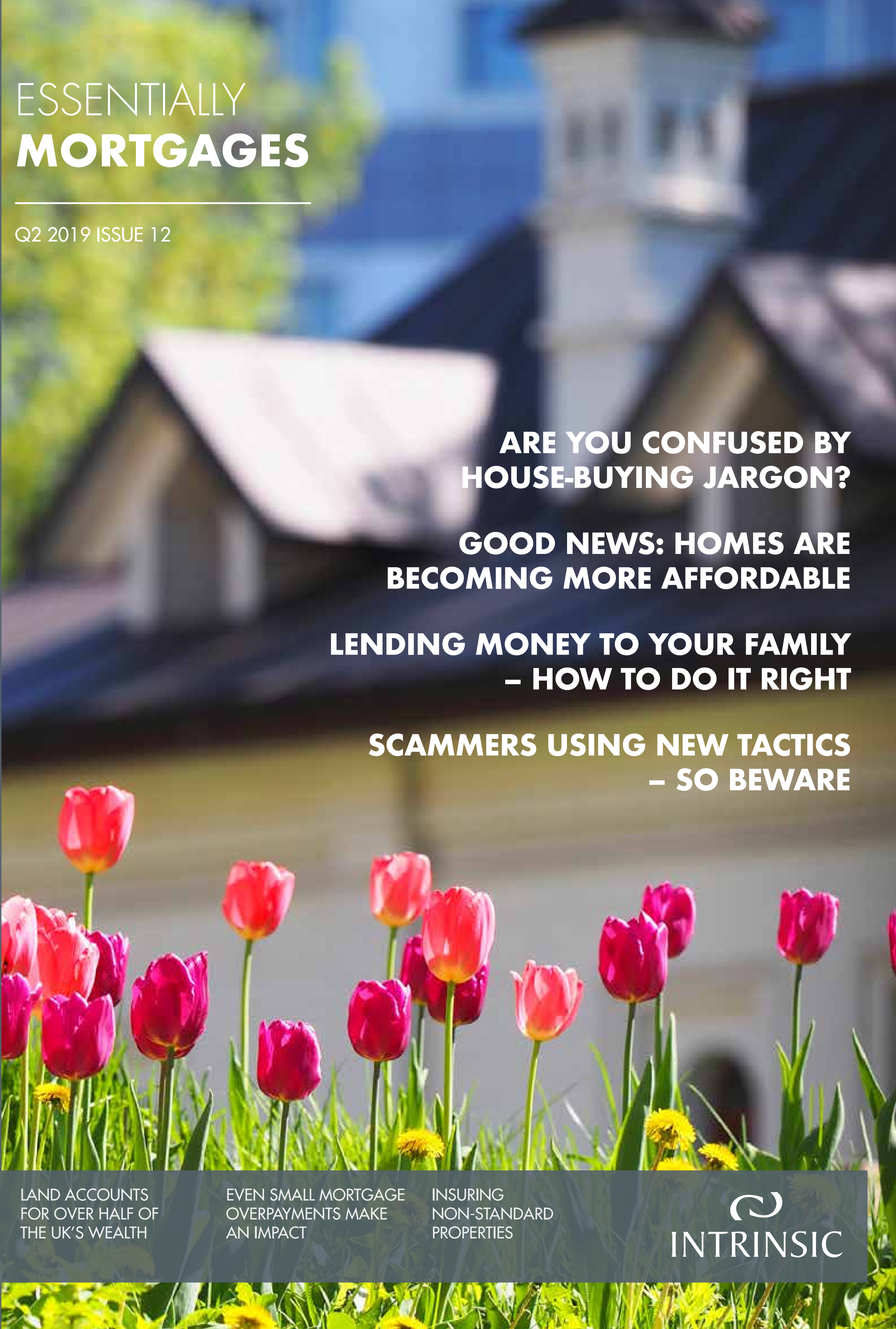

ESSENTIALLY MORTGAGES

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LENDING MONEY TO YOUR FAMILY – HOW TO DO IT RIGHT

Rising property prices relative to incomes have made it increasingly hard for young adults to raise a deposit for their first home. Unsurprisingly, research shows that the Bank of Mum and Dad continues to be a major lender, supporting more people than ever. It's estimated[1] that 27% of all buyers in 2018 received help from friends or family, up from 25% in 2017.

Offering a helping hand

If you decide you want to help a family member afford a major purchase such as a home, you need to go about it in the right way. It's important to ensure that you aren't prejudicing your own financial security by giving or lending the money. Putting your interests first isn't selfish, it's common sense.

You will need to decide whether the money will be a loan or a gift, and you may need to consider getting advice on the tax consequences. Giving money away can have Inheritance Tax implications; a lump sum would be a potentially exempt transfer, as long as you survived seven years after making the gift. If you charge interest on a loan you make, the interest is liable for income tax.

If you lend the money, it's important to put the details in writing, so there can be no disagreement regarding the terms at a later date. It also makes sense to draw up a schedule of repayments, or stipulate a trigger event, which could be when the property is sold.

Mortgage and pension options

Some parents become guarantors for their child's mortgage, either by depositing cash or using their own home as security, or they can enter into a joint mortgage with their child. Others choose to gift part of their pension tax-free lump sum on retirement.

With property prices in many areas of the country having risen substantially over the last few years, many older home owners are choosing to release some of the equity they have built up in their property. The cash raised through equity release can be used by parents to give their children an early inheritance and help with the purchase of their own home. Interest on the sum raised is often allowed to accumulate, which may significantly reduce the amount inherited later.

If you're considering providing financial help to family members, it's a good idea to seek financial advice, so that the financial needs of all the parties involved are fully considered in finding the right solution.

[1]Legal & General, 2018

IF YOU DECIDE YOU WANT TO HELP A FAMILY MEMBER AFFORD A MAJOR PURCHASE SUCH AS A HOME, YOU NEED TO GO ABOUT IT IN THE RIGHT WAY.

GOOD NEWS: HOMES ARE BECOMING MORE AFFORDABLE

It's good to be able to report positive news from the housing market. The affordability of housing in Britain is improving at its fastest rate since 2011, according to recent analysis[2].

The average asking price for a home in the UK is now £300,715, the Rightmove house price index for February found. This is just 0.2% higher than last year's average, while wages grew by 3.4% over the same period, outstripping asking prices at the fastest rate since 2011.

Mortgage rates have fallen

So, although prices have rocketed by 29% in the last 10 years, monthly mortgage payments are substantially cheaper, as mortgage rates have fallen sharply since 2008, moving down from an average of 5.37% to 1.68%. Today, an average borrower will be spending around £104 a month less on their repayments.

Over the last decade, the average homeowner will typically have seen their monthly repayment drop from 43% of their income in 2008 to 31% in 2018. However, back in 1997, the average home in England and Wales cost 3.5 times the average salary according to figures from the Office for National Statistics; by 2017, the house price to annual income ratio had risen to 7.8.

Sellers lowering prices

The Rightmove data shows that new sellers in the North are able to ask more for their property than they would have achieved a year ago. By contrast, sellers in the South have been dropping their prices in recent months as they become more realistic about the value of their homes in a slower market beset by Brexit uncertainties.

[2]Rightmove, Feb 2019

EVEN SMALL MORTGAGE OVERPAYMENTS MAKE AN IMPACT

When you take out a mortgage, your lender calculates how much your monthly repayments need to be to ensure your mortgage is paid off at the end of the term. This is based on the interest rate, the number of years you are borrowing for, and the total amount you have borrowed.

The advantages
Making mortgage overpayments simply means that you pay more than the amount set by your lender. As the amount you overpay goes towards repaying the mortgage itself, not on any interest you owe, overpayments help you pay off your mortgage sooner, and can thereby reduce the amount of interest you pay over the course of your loan.

Research from Santander shows that if a borrower took out a £200,000 mortgage over a 25-year term, they could save £1,146 in interest (based on current rates) by making a monthly £10 overpayment, becoming mortgage-free four months earlier.

Those who can make a £100 overpayment each month on a £200,000 mortgage could save £9,948 in interest and reduce their mortgage term by three years in the process.

Those with a £500,000 mortgage making the same £100 overpayment could save over £10,000 in interest and become mortgage-free one year and five months earlier. The combination of paying off capital and consequent reduction in interest results in the time reduction, rather than the interest saving alone.

Rules may apply
You will need to check if your mortgage plan allows you to make overpayments. Some mortgages restrict the amount you can overpay to a percentage of the amount owed. If you're paying your lender's standard variable rate (SVR) you can usually overpay as much as you want. However, SVRs can be expensive, so you may want to consider remortgaging to a better rate instead.

INSURING NON-STANDARD PROPERTIES

One of the major attractions of the UK property market is the wide choice it offers – cosy thatched cottages, grand manor houses made from ancient materials such as wattle and daub, modern prefabricated timber-frame homes and even picturesque houseboats.

When it comes to buildings insurance, if your property is constructed largely from materials such as timber, concrete or straw rather than the more traditional bricks, tiles or slate, then some insurers consider it as 'non-standard'.

How premiums are calculated
With buildings insurance, part of your premium is based on what it would cost to rebuild your home from scratch if it were to be destroyed by perils like fire or flood. The cost of rebuilding a property in less widely used, specialised materials will be higher than for a property of standard construction.

This doesn't mean that you can't get insurance for a non-standard property, rather that you'll need to find a more specialised insurer who has the knowledge and expertise to provide the cover you need. We can help you find the policy that's right for you.

MILLIONS RETIRE UNEXPECTEDLY EARLY – MAKE SURE YOU HAVE PLANS IN PLACE

Whilst many people look forward to the time when they can retire, for some people this decision is thrust upon them by circumstances outside their control. Recent research[3] has shown that around 3.6 million people aged over 65 found themselves retiring earlier than they had planned because of an unexpected change in their lives. This is despite record numbers of those aged over 50, remaining in work.

In 25% of cases, retirement came as a result of illness, whilst redundancy was responsible for 21% leaving the workplace. Caring was mentioned too, with 10% of people giving up work because of the demands of caring for someone else. Roughly twice as many women (13%) found themselves having to retire early to care for family members compared to men (6%).

Putting plans in place

Sadly, ill-health, redundancy or the need to care for others can become a reality at any time and becomes more likely with age. So, although many people may well plan to work on past their state pension age, they may find that events overtake them.

This research underlines the need to put plans in place well ahead of retirement, to cover a range of possible scenarios. The survey data shows that only 26% of those who retired early did so because they had enough pension or savings to provide for their needs in retirement.

Taking holistic financial advice as early as possible will ensure that you don't leave your pension planning too late and that you have the right protection plans in place to help you cope with unexpected events.

[3]Just Group, 2019

ARE YOU CONFUSED BY HOUSE-BUYING JARGON?

When it comes to buying or selling your home, there are a number of terms you'll hear used which may be new to you. Here are a few you might encounter – you'll be pleased to know that we will be happy to explain any others as you encounter them.

Arrangement fee
This is the fee you will be charged for the arrangement of your mortgage loan. It's one of several expenses you'll need to budget for when you buy property.

Bridging loan
This is a short-term loan that enables you to make your move by providing a 'bridge'. So, if you needed to complete on your purchase, but your sale will complete a little later, then you might need to take out this type of loan to complete your move.

Chain
A commonly-encountered situation where your move depends on others moving to complete the transaction. Chains can break down if one party decides not to proceed with their sale or purchase. A first-time buyer is often the start of a chain (buying but not selling), others in the chain will be buying and selling, so there's more chance for hold-ups or problems to occur.

Conveyancing
This is the legal process of transferring the ownership of the property from the seller to the buyer. You will need to instruct a solicitor or a licensed conveyancer to do this on your behalf.

Equity
This is the difference between the amount you owe by way of mortgage, and the current value of the property.

Exchange of contracts
This is the point in the process of buying and selling a home when both parties become legally bound to complete the deal to a specific timescale (and neither side can change their minds without incurring financial penalties). In order for this to happen, signed contracts are exchanged between the buyer's and seller's solicitors or conveyancers.

Structural survey
This is a report on the physical condition of a property. The surveyor will look at all the accessible parts of the property and report on any defects or issues they find. This can be a really useful exercise, as if there are faults that will need to be rectified, and you still want to proceed with your purchase, you can use the survey to try to negotiate a lower price.

Vendor
This is an alternative term for the seller of a property.

CONCERN FOR CARERS WITHOUT PROTECTION POLICIES

The majority of care provided doesn't come from the NHS or care homes, it comes in the form of unpaid assistance from relatives, friends and neighbours. Around seven million people act as carers for other people[4], and the services they provide are estimated to be worth £132 billion a year and can come at the cost of a carer's emotional and physical health. In a recent survey, 61% of carers said they suffered physical ill-health as a result of the help they provide to others.

Carers have little protection
Research[5] shows that more than seven out of 10 of those who care for family members, or other people, do not have any protection policies in place. This could mean that those they look after might not receive the care they need if they were to fall ill themselves. Only about three in 10 of those who look after others have life insurance (28%), while just 12% – approximately 1.2 million – have critical illness cover.

If you need advice on choosing the right protection policy for your needs, do get in touch.

[4]Carers Trust
[5]Scottish Widows, 2018

LAND ACCOUNTS FOR OVER HALF OF THE UK'S WEALTH

Many of us might think that one of the UK's major economic challenges stretching back over the last few decades has been the continuing rise in house prices. Whilst it's true that prices have increased nearly tenfold since 1979, the problem it seems lies with the cost of the land they occupy.

THE UK NOW HAS THE HIGHEST PROPORTION OF WEALTH TIED UP IN LAND OF ANY G7 COUNTRY

Research from the Office for National Statistics (ONS)[6] has shown that the majority of the UK's wealth is tied up not in property, but in the land that it stands on.

With the UK's net assets valued at £10.2trn, land now represent 51% of the UK's total net worth. At just over £5tn it is worth more than all the homes, commercial property, machinery and equipment and all the other non-financial assets combined.

This means that the UK now has the highest proportion of wealth tied up in land of any G7 country, 12% more than the G7 average of 39%, and 9% more than France and nearly double the German figure of 26%.

[6] ONS, Aug 2018

SCAMMERS USING NEW TACTICS – SO BEWARE

Now that the government's pensions cold-calling ban is in place, scammers are looking elsewhere and using new ways to target unsuspecting victims. One particularly nasty scam involves victims being called and told that HMRC is starting legal action against them for unpaid taxes. Some of the calls are automated, with a recorded message telling people to press '1' to speak to a case worker to make a payment. Victims are told if they don't pay £1,000s on the spot they will be arrested.

HMRC revealed in March that it had received more than 60,000 reports of scam calls in the six months to January 2019, an increase of over 360% compared to the previous six months.

Just hang up

With this type of scam, calls often appear to come from a telephone number which looks very similar to a genuine HMRC number. The caller will often sound professional and will ask the victim to confirm their details before telling them the amount they allegedly 'owe'. If they are challenged, the fraudsters claim that unless you make an instant card payment, you will face immediate arrest, or your passport will be cancelled.

HMRC says that it will never call people out of the blue demanding payment. They will only ever call asking for payment of a tax demand that they have already made you aware of in writing.

Their advice is never to divulge your PIN, password or bank details to strangers. If you're contacted in this way, don't give out any personal information, reply to text messages, download attachments or click on links in emails you weren't expecting.

SUBSIDENCE CLAIMS CONTINUE TO REACH NEW LEVELS

The long hot summer of 2018 has led to a huge rise in subsidence problems. The Association of British Insurers[7] have reported that claims quadrupled to the highest level in more than a decade. In just three months of 2018, over 10,000 households made subsidence claims worth a total of £64 million. This increase represents the highest quarter-on-quarter jump since records began more than 25 years ago.

Spotting the signs

Subsidence is often found in areas of the country where homes are built on clay soils. It occurs when there is a sudden sinking or downwards settling of the ground on which the property stands. Clay soils shrink in prolonged dry weather, putting strain on the structure of the property, causing cracks to appear.

Not all cracks are due to subsidence, but cracks caused by subsidence tend to be more than 3mm wide, diagonal, wider at the top than the bottom, and found around doors and windows.

If you've noticed cracks appearing and are concerned that your property might be experiencing subsidence, contact your insurer for assistance.

[7]ABI, 2018

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK.