Summer 2007

the mortgage

The mortgage bulletin from iBusiness Finance

iBusiness Finance

For millions of people within the UK, their property is not just a roof over their heads, but often viewed as a passport to financial security.

Your biggest asset

Over the last decade all has been well if you own a property, with the average UK house price more than trebling over this period, resulting in the current average price of around £181,500. *(Source: Nationwide, 10 years to May 2007)*

Of course, house prices can go down, as well as up, and recent Bank Base Rate moves could have an effect.

But there are other issues that have helped support the rise in house prices, such as the growth in the buy-to-let market, that has replaced first-time buyer purchases to some extent, and has helped to underpin the whole market. Also, the change in household ownership - such as the increasing number of single dwellers - has affected the level of demand for properties. Net immigration has also helped to keep prices high in certain areas.

With this house price growth over the last decade, many people are now sitting on a large amount of equity in their property, which could be released through remortgaging if access to additional funds are needed. In fact, according to the Council of Mortgage Lenders (CML) the amount of unmortgaged property wealth held by UK homeowners stood at £3.6 trillion in 2006, which is more than three times the £1.1 trillion currently owing on mortgage borrowing. *(Sources: CML Press Release, April 2006; Bank of England, March 2007)*

Alternatively, homeowners may also simply want to switch mortgage - as their current deal is due to come to an end, or want to try to secure a better rate.

Small wonder then that over one-third of the mortgage market consists of remortgages. *(Source: CML, year to March 2007)*

Of course, there may be additional costs attributable to remortgaging. And you'll need to meet the lender's borrowing criteria, as well as ensuring you're not overstretching yourself with the level of repayments.

With thousands of different mortgages out there, why not contact us in order to discuss your needs. We may even have access to some deals that are not readily available to you on the High Street.

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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 **Remortgaging** and how we could help you, cover the **Buy-to-Let** market, highlight some areas for **Home Improvements,** set out the benefits of **Offset Mortgages** and end with a look at **Protecting you and your family.**

Hit the roof

Did you know that a loft conversion could possibly add a decent amount to your property's value, according to research by Alliance & Leicester.

Although there are regional price differences, the average cost of a dormer loft conversion in the UK is around £23,000, according to the Building Cost Information Service. It could add around £75,000 (net value) to a property that increases from 3 to 4 bedrooms, although there's far less return if going from 2 to 3 bedrooms. *(Source: Alliance & Leicester, April 2007)*

Of course, a loft conversion needs careful planning, and probably expert help, as it is a fairly major job. Albeit an increasingly popular one, as people weigh up the cost of moving against creating more space within their existing home.

You'd also need to consider the disruption and redecorating costs. A surveyor can give you professional advice about building regulations, planning permission and to what extent it may add value to your property.

There are also plenty of other home improvement activities that may add value to your home. For example, improving kitchens and bathrooms can be beneficial, but always stick to neutral colours if you are doing it for re-sale purposes. Your taste may not suit everyone.

However, recent research from Woolwich has revealed that our love affair with DIY may finally be beginning to wane. Almost half the people surveyed admitted they don't actually like DIY and an overwhelming 75 per cent said they are fed-up with watching makeover/DIY programmes.

The main reasons listed for the lack of enthusiasm with DIY are 'not having the time' (40 per cent) and 'likely to botch it' (37 per cent). Instead, seven in 10 of the nation's homeowners would rather get somebody in, or at least consider it before undertaking any DIY. *(Source: Woolwich, April 2007)*

Talk to us if you need to secure some funding for your home improvements.

■ Your home may be repossessed if you do not keep up repayments on a mortgage or any other debt secured on it.

Budding landlords

Ten years ago, the bottom of the market was sustained by first-time buyers. Nowadays, it is being underpinned by buy-to-let landlords.

Many first-time buyers are being forced to postpone house purchase until their 30s, when they are more established in their careers, or until parents or grandparents can help with funding. An increasing number also appreciate the flexibility that renting provides.

With young people renting for longer, net immigration and smaller households - these are some of the factors that underpin the continued growth of the rental market.

Whilst returns are not guaranteed, recent research from Assetz shows that the UK is the second most profitable country (after Poland) to let property out of 14 countries surveyed, providing a total return on cash invested of 63 per cent.

(Source: Assetz, 21 months to March 2007 period)

Despite recent movements in the Bank Base Rate, buy-to-let remains remarkably popular, largely because many landlords are happy to see the capital value of their rental properties rise, rather than being dependent on the rental income.

Both amateur and professional landlords are now benefiting from a highly competitive range of buy-to-let mortgages, which nowadays cost little more than conventional mortgages. In addition, the interest element of the mortgage repayments can often be offset by landlords against the income tax due on rental income.

Why not talk to us 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.

Buy to let TIPS

- Shorthold assured tenancies require a two month notice period.
- An annual inspection of all gas appliances is a legal requirement.
- Rent should cover 125 per cent of the mortgage (although some lenders will settle for 100 per cent cover). Alternatively, lenders may look at your overall property portfolio or lend on the basis of your affordability levels.
- And do be aware, the Tenancy Deposit Scheme is now applicable to England and Wales.

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

OFFSETTING

...for better balance

Do you have a fluctuating income, earn big bonuses or have large amounts of savings on deposit?

If you fit into any of these categories, an **offset mortgage** may suit you. This is because by placing both your mortgage and your savings with the same institution, your mortgage lender will offset the value of your savings against the cost of your mortgage, while allowing you to keep access to your savings, if you need to draw some funds.

You have to forgo any interest you would normally have received from your savings because the amount on deposit is used to reduce your mortgage debt each month. This means that you are receiving a return on your savings which is the same as your mortgage interest rate.

So, say, you are paying 6 per cent on your mortgage, and offsetting savings against this, your savings are effectively earning you 6 per cent, too. This could be attractive for taxpayers, especially for a higher rate taxpayer because if the savings were taxable, your net return after 40 per cent tax would be markedly lower, and that's before inflation of around *3 per cent. *(Source: *Bank of England, May 2007)*

Offset mortgages have a linked current account and savings account.

So for example, with a £90,000 mortgage and £30,000 in your linked savings account, you would only pay mortgage interest on £60,000. So the more you have in your savings account, the less interest you pay on your mortgage.

Offset mortgages may also allow you to make overpayments of your mortgage, so this can be useful if you receive large commissions, bonuses or other one-off payments during the year which you want to use to reduce your mortgage debt.

Alternatively, they may offer payment holidays, or underpayment options.

Of course, an offset mortgage will not be suitable for everyone, so give us a call to see if it can work for you.

PAYMENTS Calculator

With an **interest-only mortgage,** you only pay interest during the term of the mortgage. Separately, you should consider paying 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.

Repayment mortgages require you to 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.

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 2007)

* 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.

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.

BRIDGING LOANS

BRIDGING LOANS are a specialist area of the marketplace and can be an option for people looking to secure short-term funds quickly.

These funds could enable borrowers to help obtain a property (at auction perhaps), or make enhancements to their current property, while waiting for a loan from their mortgage lender or other source to come through.

Of course, this form of lending is not appropriate for those in financial distress, on the contrary, it's for those that have wealth in the form of property assets, and want to quickly extract some liquidity from those assets.

The Financial Services Authority does not regulate Bridging Loans.

■ **Your home may be repossessed if you do not keep up repayments on a mortgage or any other debt secured on it.**

Don't let the excitement of your new mortgage deal distract you from the need to take out protection for you, your family or dependants.

Protect
yourself and your family

JUST AS the mortgage market offers a myriad of products, the life and protection market also has a wide range of different product options designed to suit your own specific needs.

Whether you want your family to receive a monthly income or a lump sum in the event of your death, or to protect your income if you can't work due to illness or unemployment, or a cash lump sum because of long term incapacity, we can search for the most suitable terms and conditions.

A few examples for you

Term assurance, which pays a lump sum if you die during the term of the policy, can be extremely good value (particularly if you are a non-smoker) and is usually designed to pay off the mortgage.

The younger you are when you take out term assurance, the cheaper it is generally and the market is extremely competitive because of rising life expectancy. But remember that once the term of the policy ends, you get nothing back and you are no longer covered, unless you have other life assurance cover in place, for instance through your employer.

Some employers offer three times salary as a standard employee benefit, so bear this in mind when arranging term assurance. But remember that if you leave your employer you lose the benefit, unless your new employer offers you similar cover.

Another useful insurance is **Income Protection.** This will pay you a tax-free monthly income if you are too ill to work. You choose the deferment period (the amount of time that must elapse before you can make a claim) which is typically three or six months because some employers will pay their workers for this amount of time if they are off sick.

The premiums will be based on your age, gender, occupation, state of health and medical history, along with the deferment period you opt for.

And of course, you need to be sure that the policy covers you for being unable to pursue your 'own' occupation, and not 'any occupation'. Otherwise, the insurer might argue that you are fit to sweep the factory floor, even if you were formerly the company's finance director.

By contrast, **Critical illness** insurance pays benefits on the diagnosis of a serious illness such as heart attack, cancer or stroke, as well as a number of other conditions, provided that you survive the illness for a minimum period of typically 28 days.

"Finding the right cover for your needs can be a complex process"

Finding the right cover for your needs can be a complex process, so do get in touch and we can discuss the merits and costs of the various forms of protection on offer.

■ 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**
- ❑ **Remortgaging**
- ❑ **Buy-to-let**
- ❑ **Offset mortgages**
- ❑ **Bridging loans**
- ❑ **Secured loans**
- ❑ **Buying a second home**
- ❑ **Insurance products**
- ❑ **Protection products**
- ❑ **General mortgage information**

❑ **Other** (please specify) ______________________

❑ **Please do not send any further issues**

Name (Mr/Mrs/Ms) ______________________

Address ______________________

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Email ______________________

Tel (+ best time to call) ______________ Signature ______________

Please put the coupon in an envelope and post to:
iBusiness Finance, 145 – 157 St John Street, London, EC1V 4PY

■ 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.

There may be a fee for mortgage advice. The precise amount will depend upon your circumstances, but we estimate that it will be up to 1.5% of the loan value / typical £495.00.

■ The contents of this newsletter are believed to be correct at the date of publication (June 2007).

■ 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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