Your

Finance Matters

Financial Magazine

Vegan Mortgage Adviser

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Your Window on

Home Finance

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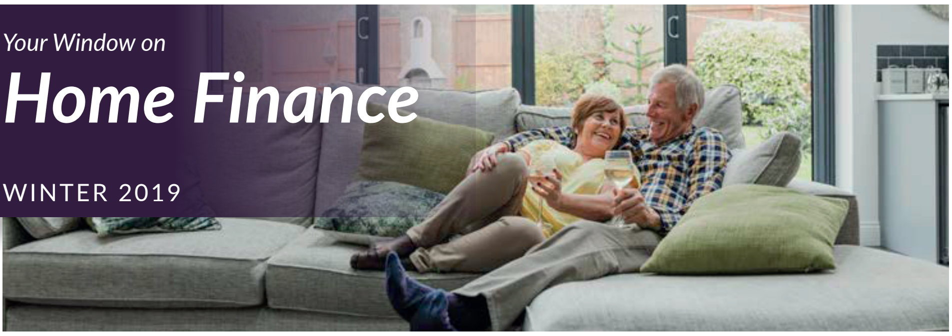

What you need to know about retirement mortgages

Whilst much is often made of the plight of first-time buyers, a lot less attention is generally paid to older borrowers who are looking for the right type of mortgage product for their needs.

However, banks and building societies are increasingly aware that borrowers are living longer and want to borrow for longer too. Many are developing new ways to support their borrowers, whatever their age.

For those looking to borrow to fund home improvements, travel the world or help a family member onto the housing ladder, there are now more options available. If you're an older borrower looking for a mortgage, it makes sense to work with us. We know the market well and can recommend the right deal for your circumstances.

Lifetime mortgages

These are loans that are secured against your home that allow you to release some of the equity, the cash value you've built up in your home. Lifetime mortgages, also known as equity release mortgages, are available to those aged 55 and over. The mortgage loan and the accumulated interest is paid off when the last surviving owner of the property dies, sells the home or goes into long-term residential care.

Retirement interest-only mortgages

These are similar in many ways to standard interest-only mortgages and let you pay interest on the loan each month. There is no set end-date, and as with a lifetime mortgage, the loan is redeemed when you die, go into care or sell the property. Unlike equity release mortgages, borrowers are required to pass affordability checks and show that they have sufficient income to be able to make regular interest payments for life.

Good advice pays

Those who have a regular secure income may find a retirement interest-only mortgage applicable to their needs. A lifetime mortgage might be more suitable for those who aren't in receipt of a secure income, or don't want to make regular mortgage payments for life. As everyone's circumstances are different, good advice is essential.

New home stats - through the roof!

With the Government having pledged to build 300,000 new homes a year in England by 2025, there's welcome news concerning the number of new homes registered in the third quarter of 2018.

Builders register homes expected to be built in the coming months that are to be covered by the National House Building Council (NHBC) ten-year warranty scheme; these registrations account for about 80% of new homes. NHBC figures show that 43,578 homes were registered between July and September 2018, 15% higher than in the same period in 2017, and the highest number in any quarter since 2007. Of these homes, 10,058 were affordable homes, a year-on-year increase of 12%.

Registrations were up in the rental sector too. Housing associations and overseas investors active in the London rental market helped increase year-on-year registrations in the capital by 141%.

Total new housing supply also continues to increase in Scotland, up 4% in 2017-18 (19,428 new housing units). This represents the fifth consecutive increase in total housing supply, the highest annual figure since 2008-09.

Clearly, good progress is being made, although many in the construction industry are concerned about the likely effects of Brexit.

As a mortgage is secured against your home or property, it could be repossessed if you do not keep up mortgage repayments.

Think carefully before securing other debts against your home. Equity released from your home will be secured against it. Your home may be repossessed if you do not keep up repayments.

INSIDE THIS ISSUE:

RENTAL PAYMENT HISTORY SHOULD BE CONSIDERED

Millions of tenants could see their credit score boosted following moves by credit agents Experian to include their rental payment information on their credit report. As lenders access this information, it could make it easier for those who pay their rent on time to be considered for a mortgage.

40% CAN'T AFFORD A HOME WITH A 10% DEPOSIT

Around four in 10 young adults can't buy one of the cheapest homes in their area even with a 10% deposit, according to research[1]. The Institute for Fiscal Studies said house prices in England have risen by 173% over two decades, whilst the average pay for 25 to 34-year-olds has grown by just 19% over the same period (both percentages inflation-adjusted).

REGIONAL HOUSE PRICE GROWTH IN SCOTLAND, WALES AND THE MIDLANDS HELPS PROP UP THE HOUSING MARKET

Experts attribute regional house price increases to the large number of new builds in these areas, the prices of which have risen faster than second-hand homes. Prices grew fastest in the West Midlands (6.1%), East Midlands (6%), Scotland (5.8%) and Wales (5.8%) in the 12 months to September 2018[2].

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[1]Institute for Fiscal Studies, Oct 2018

[2]HM Land Registry, Nov 2018

First-time buyers get two more years to benefit from Help to Buy

Under its Help to Buy scheme, the Government offers first-time buyers and second-steppers a loan of up to 20% of the price to buy a new-build property of up to £600,000. A London-only version of the scheme provides 40% equity loans.

Changes announced in the Budget

The 2018 Budget contained details of how the Government's Help to Buy scheme is to operate in the future. Until 2021, anyone taking advantage of a Help to Buy equity loan to boost their purchasing power can buy a property worth up to £600,000. Thereafter, and for a maximum of two years, only first-time buyers will be eligible to buy through the scheme, and the maximum property values will be restricted, with differing figures in place around the country.

London limits

After 2021, first-time buyers in London will still be able to buy properties up to the value of £600,000 using the scheme; all other regions will see the implementation of a cap on maximum prices. This means that, for instance, the maximum price for an eligible property in Yorkshire and Humberside will be £228,100, and in the south east the figure will be set at £437,600.

No further schemes announced

The Budget document reveals that the scheme will not be extended beyond 2023. It said: *"The Government does not intend to introduce a further Help to Buy: Equity Loan scheme after March 2023"*.

The announcement provided welcome news for housebuilders planning future development. It also provides valuable peace of mind to potential first-time buyers who are currently saving for a deposit that they still have time to benefit under the scheme and see their home purchase plans become reality.

How to avoid buying a money pit

It's often said that when we buy a home, we do so with our hearts and not our heads. It's always advisable to have a structural survey done by a professional surveyor, as they will take an objective view of the property, and report on any problems that might be expensive to fix.

Structural checks
Surveyors will spot things that you might not notice, like a sagging roof, missing tiles, warped window frames, wonky walls or sloping floors. They will investigate any cracks that could be a symptom of subsidence or other structural problems. They will also look for signs of any water damage, and check if damp or condensation might be a problem.

It also makes sense to get boilers and central heating systems checked out. If defects go undetected, they can be expensive to put right and could be a major inconvenience when you move in.

Getting the price right
If your surveyor finds problems, they will give you an approximate figure for putting things right. If you still want to proceed, you can use this as a bargaining tool to ask the seller to reduce the price.

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Protecting the people and things you hold dear

Many people take out insurance and then forget all about it. However, it makes sense to review your protection policies from time to time as your need for cover may have changed. For example, if you've moved home, or you have a new addition to your family, your existing insurance plans may no longer meet your needs. And don't forget, making sure you have an up-to-date Will in place will give you and your family peace of mind too.

Hearth and home
Do you have the correct level of buildings and contents insurance? If you've extended your property or made home improvements, you should review your buildings sum assured, as it may need to be increased. If you and your family acquired high-value goods such as new phones and computers over Christmas, you may need to review your level of contents cover. It's also important to make sure you have the right cover in place if you intend to use these items away from home.

Shared ownership and tax relief

Shared ownership involves buying a share in a property and renting the rest. It's a cost-effective way for first-time buyers to get a toehold on the property ladder.

The Chancellor's 2018 Budget included plans to correct an anomaly from his previous Budget by cutting stamp duty for first-time buyers of shared ownership properties worth up to £500,000.

And there was more good news. The Chancellor applied the relief retrospectively from his 2017 Budget to shared ownership properties bought in England and Northern Ireland. Searching Stamp Duty Land Tax on www.gov.uk gives details of how to contact HMRC if you're entitled to a refund.

THE RISE OF PREFAB HOMES – A CONTEMPORARY HOUSING SOLUTION

Modular homes, made in factories and then delivered in sections that are assembled on site, are becoming increasingly popular as a way of beating the housing crisis.

Manufacturing costs are lower, and it's been estimated that prefabs can be ready for occupation in less than half the time of traditional homes. Firms making them are quick to point out that today's prefab homes are built to high quality standards and erecting them creates less noise and air pollution on site.

Ways the Bank of Mum and Dad can help first-time buyers

The primary challenge for parents wishing to lend or gift money to their children to help them buy their first home, is to decide how best to do it. It's really important that parents consider their own financial future before thinking about helping others. Taking financial advice will help them do so in the most tax-efficient manner for their circumstances and consider the likely effects on their retirement plans.

Tax considerations
Parents can gift any amount of money to their children without being taxed immediately. However, there may be Inheritance Tax (IHT) implications. Giving a child more than £3,000 in a tax year means that the money will be classed as a 'potentially exempt transfer' and if the donor dies within seven years, the money will be considered part of their estate for IHT purposes, which may have an impact if their estate is then worth more than £325,000 and is not all passing to a surviving spouse. The normal 40% IHT rate tapers down to 8% during the seven-year period.

However, a gift of up to £3,000 a year is exempt from IHT, as is a gift of £5,000 made when a child marries. It's also possible for a parent to make regular gifts out of their income provided that this doesn't affect the parent's standard of living and other criteria are met.

Lending rather than giving
Some parents prefer to give all or part of the money as a loan. In this case, it is worth drawing up a contract outlining what the repayment terms are to be. Not only does this prevent future disputes as to whether the money was a loan or a gift, it also means that the parents know when they will see the return of their cash. If a parent loans their child money, and the child pays interest to the parent, then this is taxable.

The Financial Conduct Authority does not regulate some forms of taxation advice.

RISE IN 10-YEAR FIXED MORTGAGES

Despite mortgage rates being at their lowest level for years, two increases in the base rate in under a year, have prompted many mortgage holders to consider their options. Some providers have started to offer 10-year fixed rate mortgages, guaranteeing a consistent payment for a decade.

Recent research[3] revealed that over half of respondents to their survey (56%) are concerned about interest rate increases. A third of homeowners with mortgages would consider a 10-year fixed product. One of the driving forces for considering this long-term, fixed mortgage is the desire for financial stability. Over two thirds (68%) of respondents cited financial peace of mind as a prime factor for favouring a long-term fixed product.

As with all things, there are pros and cons associated with locking into a long-term fixed rate mortgage. These types of mortgage don't suit everyone. It really depends on your personal circumstances and finances; so, make sure you speak with a mortgage broker before making any decisions.

As a mortgage is secured against your home or property, it could be repossessed if you do not keep up mortgage repayments.

[3]MAB, 2018

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