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# YOUR HOME FINANCE

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## INSIDE THIS ISSUE



## MORTGAGES – BANK OF ENGLAND TIGHTENS THE RULES

Home buyers are set to face stricter borrowing tests when applying for a mortgage, following the introduction by the Bank of England of tighter restrictions on lenders. Lenders will now be required to make sure that borrowers can manage repayments at an interest rate of around 7%, which in many cases is far higher than the rate borrowers are currently likely to be charged.

The Bank of England has made this move due to its concerns that families have been encouraged by record low interest rates to increase their borrowing. Borrowers will now need to show that they have enough slack in their household budget to cope with making larger monthly repayments if interest rates start to rise.

However, as many lenders have been operating under strict mortgage criteria for some years now, the general view is that this may not be the stumbling block to new mortgages it might appear. The Bank has estimated that if these rules had been in operation in 2016, it would only have reduced mortgage approvals by less than 0.5%.

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## PROPERTY PRICE CORRECTION COULD HURT BABY BOOMERS

Some experts are predicting that the residential property market is heading for a price correction, and while this spells good news for those would-be buyers who have all-but despaired of ever owning their own home, it could mean less cash in retirement for the baby-boomer generation.

### BRIDGING THE PENSION GAP

With house prices remaining high, many older people are thinking about their finances in retirement and find themselves wondering how much their own property might be worth. Those who bought large homes some years ago, to raise their families, look increasingly likely to consider accessing the value tied up in their property in their later years. Many are earmarking this equity to bolster their pension income, or to pass on to younger generations who may be considering their own house-buying plans.

With increasingly large amounts of money tied up in property, The Telegraph reported that the total value of the housing wealth owned by the over 55s in England is more than the GDP of Italy. The estimated total value of these properties comes to a staggering figure of approximately £1.5 trillion.

However if, as some experts predict, there could be a price correction of somewhere between 20 and 40%, then in simple terms, this would mean that there is a lot less value available to access.

Using equity release, a couple in their mid-60s might realistically expect to draw around 25% of their housing equity as cash. So, if property values were to fall by as much as 40%, this would mean there would be far less cash available to provide an income or pass on to younger family members. This could mean that the bank of mum and dad, or grandma and grandpa could find itself running short of funds.

### POSSIBLE OUTCOMES

If house prices were to fall substantially, then clearly there would be several outcomes. Many borrowers could find themselves in negative equity, where they have borrowed more than their property would then be worth. Those entering the market for the first time would at last be able to afford to buy somewhere to live, and require less by way of deposit to do so. However, older people could be forgiven for finding the prospect of a price drop less appealing.

## RETIRED AND STILL PAYING OFF THE MORTGAGE

A recent survey using data from the Office for National Statistics showed that around a fifth (23%) of homeowners aged 51 to 65 are expecting to continue making mortgage payments after the age of 65, with 25% of them expecting to be still making repayments in their 70s. This group is estimated to number around a million people.

### REPAYMENT

To repay their mortgages, the survey found that around 320,000 people will take money from their pensions. Others will rely on using funds from savings or inheritances. Some will even contemplate selling their home and downsizing to raise the necessary cash. Others, who finding the prospect of seeking somewhere new to live in later life too daunting, and wish to remain in their existing homes, will turn to equity release. In a newly-emerging trend, more people are choosing to rent in retirement, putting the cash raised from the sale of their property to good use during their lifetime, and saving their family the task of disposing of their property on their death.

### LONGER MORTGAGE TERMS

With more mortgages now being granted for longer terms, many young people buying today can expect to still be repaying a mortgage in retirement. According to the former Council of Mortgage Lenders (recently subsumed into the new UK Finance trade association), more than 60% of first-time buyer loans are for a term of more than 25 years, double the number a decade ago. Just over a third (36%) of those moving home now borrow for longer than a quarter of a century.

### REPAYING A MORTGAGE FROM A PENSION

There are several factors to take into consideration when thinking about using your pension to pay off your mortgage. Using money from your pension obviously reduces the amount left invested in the fund to provide an income in retirement. Taking out substantially more than the 25% tax-free allowance can often result in a large tax bill.

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## INCOME PROTECTION TERMS – CHOOSING THE RIGHT ONE FOR YOU

Millions of households could face financial hardship if the main earner was unable to work because of unemployment, serious illness or an accident. For those people who are new to insurance, a cost-effective way to get some cover in place is to choose a short-term policy.

### SHORT-TERM POLICIES

Short-term policies are designed to pay out a monthly income for a fixed period of time, often one or two years. They cover a percentage of your monthly income to help towards paying your mortgage and bills if you are unable to work. This type of policy is suitable for people who have been made redundant or suffer an injury which leaves them unable to work or earn their usual wage for a period of time. For example, if they have sustained an injury and are receiving statutory sick pay, this type of policy could bridge the gap in income to meet their monthly liabilities for a short period.

In the event that you have to make a claim on your policy, there is a waiting period, referred to as a 'deferred period', before you receive your first monthly payment. You can select how long you want this period to be when you take the policy out.

### LONG-TERM POLICIES

Long-term policies provide a regular income for an extended period of time if you can't work due to illness or disability (but not if you are made redundant) until you are well enough to return to work, or until you reach the end of the policy term. Again, a deferral period will apply before pay out commences. It's important to take care to understand what illnesses you are covered for and not to confuse income protection policies with critical illness cover, which provide support you if you are diagnosed with a specific illness.

### WORKING TO YOUR BUDGET

So, there is a choice to make. Policy selection will depend on how much you can afford in premiums, how long you want the policy for and the risks you want to cover. Short-term policies often don't require a medical so can be quick and easy to arrange. If you take the policy out when you're younger, the premiums are likely to be lower. Longer-term policies often provide protection up to retirement and offer wider cover, but are likely to be more expensive.

## INTEREST-ONLY MORTGAGES FUEL £1.25BN EQUITY RELEASE BOOM

Equity release is growing in popularity in the UK. Whilst increasing numbers of older home-owners are turning to equity release so that they can provide financial help to their children and grandchildren when they need it most, many are also using this form of finance to pay off interest-only mortgages.

Thousands of homeowners took out interest-only mortgages in the 1990s. With this type of mortgage, borrowers only pay the interest on their loans each month, and don't repay the original amount borrowed until the mortgage matures. Although many people took out insurance plans to provide the funds needed to repay these mortgages, many did not. For those who don't have plans in place to pay off the capital sum at the end of their mortgage term, or are facing a shortfall in the amount

needed, equity release is increasingly being used to provide the necessary cash.

New figures show that the amount of equity released by borrowers from their homes in the first half of 2017 was £1.25bn, up 33% on the same period last year.

### HOW IT WORKS

A typical equity release mortgage taken at 65 could release 25% of the value of the home up front, with the loan and compound interest repayable on death by the sale of the property. The equity can also be released as a drawdown income, a flexible option that is becoming increasingly popular.

### PUTTING THE CASH TO GOOD USE

This method of raising money can also be helpful to those who find that their income in retirement isn't sufficient. Others use the cash raised for home improvements, or to pass on early inheritances to family members.

Equity release reduces the value of your estate, so you should discuss it with your family and take professional advice.

Equity release may require a lifetime mortgage or home reversion plan. To understand the features and risks, ask for a personalised illustration.

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## PENSIONERS – THE NEW 'GENERATION RENT'

The term 'Generation Rent' has been hitting the headlines more and more over the last few years. It is usually used to describe a younger generation badly hit by rising house prices and lagging incomes for whom the prospect of buying a home is proving increasingly elusive.

Traditionally, renting has been associated with those in the 20 to 30-something age group who may be choosing to rent whilst saving up for a deposit on their first home, or simply prefer the freedom to move around that renting rather than buying offers them.

However, that view is becoming increasingly out of date. Today, many older people live in rental accommodation. One in every 12 private rental sector tenants is a pensioner, according to a survey from estate agents Countrywide. The typical retiree opts for a one or two bed property and pays £810 per month in rent, which is around 12% less than the average tenant is likely to pay.

### A GROWING TREND

While older people have typically been amongst those most likely to own rather than rent, this rise in numbers is explained in part by the increase in the number of couples divorcing later in life. This group, often dubbed the "silver splitters", can be unable or unwilling because of their age to take out a mortgage, and so move into rental accommodation after leaving the marital home.

Many older couples are now choosing to rent in later life, in part because it removes the cost and worry of maintaining their own property, and because it spares relatives the problems associated with selling a property when they move into long-term care or die. The continuing lack of readily-affordable housing also inevitably means that many more people of all ages are likely to rent rather than buy in the future, and it's estimated that up to a third of 60-year-olds will be renting by 2040.

## BUY-TO-LET LANDLORDS FACING NEW CHALLENGES

Lenders say that buy-to-let landlords tend to fall into two categories. There are those with spare cash who see property as a good investment option, and perhaps bought a couple of properties to provide some additional income. Then there are those with a portfolio of four or many more properties which they manage and run on a professional basis.

### REDUCTION IN TAX CONCESSIONS

In 2015, then Chancellor George Osborne introduced measures to 'level the playing field' for first-time buyers by reducing the many tax benefits available to buy-to-let landlords, deterring more from entering the market and encouraging some to sell their properties. In addition, higher rates of stamp duty were introduced on the purchase of additional properties.

Landlords accustomed to claiming tax relief on mortgage interest payments at 40% or 45% will see their relief restricted to the basic rate of 20% once the changes are fully implemented in 2020. In the 2017–18 tax year, the deduction from property income will be restricted to 75% of finance costs, with the remainder being available as a basic-rate reduction. In addition, the 10% wear-and-tear allowance has been removed, and only costs incurred can be deducted.

*...many lenders operate under significantly different criteria when lending to limited company borrowers.*

### LIMITED COMPANY STATUS

Following the changes, many landlords with bigger buy-to-let portfolios set up limited companies to hold their properties. This means that profits are taxed at 19%. Limited companies aren't affected by the change in tax rules, so mortgage interest remains fully deductible against tax.

However, research shows that only landlords who own four or more properties are likely to gain from this move. This is in part because limited company mortgage products are only available through a small number of lenders, meaning that the rates charged are often higher than those available to personal borrowers, and more liable to change with market conditions. Plus, many lenders operate under significantly different criteria when lending to limited company borrowers.

### MARKET REACTION

Many would-be landlords have been deterred from entering the market, especially in central London, and some landlords are considering selling their properties before the tax changes come into full effect in April 2020.

From 30 September, the latest set of requirements from the Prudential Regulation Authority will impact loans to buy-to-let landlords with four or more mortgaged properties. Mortgage lenders will be required to undertake a full analysis of the landlord's entire property portfolio as part of their lending criteria. This looks likely to lengthen the mortgage application process and may give rise to additional application fees.

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## INSURANCE FOR PHOTOGRAPHIC EQUIPMENT

Photography is a pursuit that's widely enjoyed by many, and it can also be expensive. That means you'll want to be sure that your equipment is properly insured against damage, theft or loss.

There are specialist policies available offering up to £20,000 of cover for loss or damage to any make or type of photographic and associated equipment, including video and digital cameras or camcorders, unexposed films, negatives or transparencies.

### COVER AT HOME OR AWAY

Most people choose to insure against risks at home, on holiday and other trips. Typical policy features can include new for old cover, theft from an unattended vehicle, replacement hire, personal accident and public liability cover.

The British Insurance Brokers' Association (BIBA) is urging travellers to make sure they get the right insurance cover in place for any valuables they take on holiday, and to be aware that many policies don't cover high-value items that are checked-in with airlines. Its list of items that may not be covered if in a suitcase in the hold includes photographic equipment and accessories, so it makes sense to keep these valuable items with you.

**It is important to take professional advice before making any decision relating to your personal finances.**

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