Spring 2018

Mortgage & Protection news

The newsletter from Grange Mortgage & Protection Services Ltd

GRANGE MORTGAGE & PROTECTION SERVICES

Interesting times

Rising interest rates for mortgages may well be an issue to consider this year.

» In March, the Bank of England left interest rates on hold at 0.5%, but hinted that a rise is coming. Although it did add that any future increases would be at a gradual pace and to a limited extent.

Elsewhere, a poll by Reuters (earlier in March) set out that 36 out of 63 economists felt that the Base Rate may increase to 0.75% in May. *(Source: Reuters poll, March 2018)*

Issues to consider

Inflation stood at 2.7% in February, and is expected to ease further in the short term, although to remain above the 2% target. *(Source: Bank of England, Monetary Policy Committee, March 2018)*

To some extent, rises in the Base Rate are designed to curb inflation; if inflation reduces naturally, then action may not be required.

However, Brexit and other factors could influence future decisions. For example, pay growth continues to pick up and now sits at around the level of inflation.* An improving economic outlook may create an environment to raise interest rates. Also, a Base Rate rise could give the Bank of England some room to manoeuvre to help counter the next economic slowdown.

*(Source: *Office for National Statistics, March 2018 release)*

How it could affect you

If rises do occur, then it may be a concern for many, and more immediately for the **4 million or so who currently sit on a variable rate with their lender.**

(Source: UK Finance, November 2017)

Recently, there have been slight increases across some mortgage products, although let's not forget that, in many cases, rates remain better than they were against the comparable period three years ago.

(Source: Mortgage Brain, January 2018 release)

Other key pointers

Another issue to think about is how house prices could move across the year. Nationwide felt that annual UK **house prices** may only rise around 1% in 2018 (albeit with regional variations), with 3-4% over the longer term. So far though, we have seen a 2.2% UK house price increase in the year to February 2018.

(Sources: Nationwide, December 2017 & March 2018 releases)

The government is also committed to increasing the number of **new homes** that are built each year. In many cases this will assist **first-time buyers,** who continue to benefit from various government initiatives.

Don't forget Protection!

It's understandable that you might feel you need to focus all your energies on securing the mortgage you need.

However if, down the line, you were off work long-term due to an injury or serious illness, or faced an untimely death - you or your family may be very grateful that there was a **protection policy** in place.

You might already be covered, to some extent, but circumstances do change, so it could make sense to have a conversation about this, in addition to any plans regarding your borrowing needs.

Talk to us to find out more.

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

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ADVISER SUPPORT

Did you know that around 80% of all mortgages go through intermediaries (such as us)? *(Source: iress, Mortgage Efficiency Survey, Sept. 2017)*

When we assess your needs, and identify suitable solutions across the wider marketplace, we naturally embrace technology to help us come to our conclusions. However, part of the reason why intermediaries account for around 8 in 10 of all mortgage transactions is that we **deliver a human face** to enable you to fully understand the options on offer from the lenders and protection providers.

Where we stand in the mix

We also recognise that most of you will have time-pressed lives. In which case, we'd endeavour to help reduce the hassle of filling out forms and applications. Furthermore, we would hold your hand throughout the process, and try to liaise with various parties along the way.

By talking to us, it may also help protect your credit score, as we'd have a better feel for issues that may score you down.

Overall, we would aim to inform and reassure you as we work towards identifying the most suitable solution(s) to meet your specific needs.

Additionally, as **we work primarily on your behalf**, which enables us to take a view of the wider marketplace rather than just what's on offer from one high street lender, or one insurance provider.

Also, we have a wide range of market experience, as our client base covers a number of areas, such as those who:

- are new to home ownership.
- have a home and may want to move up (or down) the property ladder.
- want to stay put and seek out a better deal, or require further funds.
- are active as a buy-to-let landlord.

Smoothing your path

We would also help navigate you through the raft of tighter rules, which now apply to 'evidencing of income' and 'affordability' measures. This is in place to ensure that borrowers are stress-tested to see if they can, not only meet current payments, but are also able to cope should the interest rate rise.

In this respect, different lenders may interpret the rules in alternate ways, meaning that if you can't get the loan you need from one, the answer may not be the same elsewhere. Yet another reason for securing advice from someone that is operating in this marketplace, day-in, day-out.

Please get in touch to hear more, and do remember we don't just advise on mortgages, there's protection, and much more.

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

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

Able to RELAX & RECUPERATE?

Many of us (albeit not enough) have life cover in place, should the worst occur, but what if you didn't die, and instead found yourself off work for a long period, due to illness or injury. **INCOME PROTECTION** meets this need.

An Income Protection plan is designed to pay out a tax-free monthly sum in the event that you can't work due to illness or injury. The maximum amount you can generally opt for is up to about 60% of your monthly income before tax, although if you can manage with a lower amount than this, then it would be reflected in a lower premium charge.

Of course, you may think that being off work long-term due to illness or injury is primarily an issue for those nearing retirement. If so, think again, as the average age at the time of the initial claim comes from those in their mid-40s!

When taking out the policy you should agree a deferment period, as you may be entitled to employee benefits and state support for a period of time. So do check what's on offer, if anything, from your employer. From here we can work out the best time for the policy to kick in. The longer you defer starting the payouts, the more affordable the premium should be.

And do be honest about your medical history when completing your application.

Once the monthly payments do start, they could continue until you're well enough to return to work; have retired; the policy ends; or on death - whichever occurs first.

In the interim period, some plans may also offer additional rehabilitation support to help get you back on your feet.

Income Protection is a complex product, with a vast array of options, so it is essential that you take advice. As with all insurance policies, terms, conditions and exclusions will apply.

In January 2018, remortgaging was 19.1% higher than the same month a year earlier. In fact, this was the highest monthly number of remortgages since November 2008!

(Source: UK Finance, January 2018 figures, released March 2018)

In certain cases, the desire to remortgage may be a reactive one such as coming towards the end of your deal period, or that you're already sitting on your lender's Standard Variable Rate (SVR).

Alternatively, it could be for proactive reasons such as wanting to improve on your current deal, looking to move, or perhaps to raise some additional funds for much-needed home improvements.

End of deal period

Possibly partly due to some excellent rates over the last few years, a number of the borrowers who remortgaged may now be coming towards the end of two or three-year deals. In fact, it is estimated that around 1.5 million residential mortgages will come to the end of their deal period in 2018.*

Within this mix, around 80% may have taken out a fixed rate deal, meaning that the vast majority won't have faced any interest moves until the end of their deal period.** *(Source: UK Finance/CML, *March 2018 analysis, **July 2017 report)*

Dependent on the type of deal taken out a few years back, some may be pleasantly surprised to see that what's on offer.

On the lender's SVR

Alternatively, if you're on an SVR (or about to revert to it), then you are likely to be paying out more for your loan.

In some cases, there are people who have remained on it who feel they would not be able to secure a new deal due to the more stringent requirements that are now in place.

That may be the case, but just as easily it might not. Also, other factors such as your property possibly now being worth more, may strengthen your ability to borrow. If nothing else, it makes sense to have a chat.

Improve, not move

Instead of moving, you may want to remain where you are. In which case, you might have had enough of holding back on your spending over the last few years and want, or need, to undertake some of the bigger jobs around your home. This may require additional funds to help make it happen.

Secure a more suitable deal

This could relate to cost savings, or perhaps changing the structure of your deal. For example, it could mean moving to a **fixed** or **variable tracker** mortgage.

You may want a deal where you have greater flexibility - perhaps to **overpay,** or need the option of a payment holiday.

Or, you may currently be sitting on an **interest-only deal,** and need to consider if the discipline of a 'repayment' mortgage is now a better option - where you'll be paying more, as part of the capital will be paid off as you go along. Check out the mortgage calculator to see how this may pan out.

Alternatively, you may decide that you want a different length of **deal period term** - shorter, to give you greater flexibility and avoid the more onerous early repayment charges, or longer to help you to budget better across the next 5+ years.

Whatever your requirements are, when you do come to remortgage, it's likely that you may face a bewildering choice of products, and that's where we can help. You may have to pay an early repayment charge to your existing lender if you remortgage.

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

Mortgage Calculator

- could it work for you?

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

Interest rate %	Interest-only* £	Repayment £
0.25	0.21	3.44
0.50	0.42	3.55
1.00	0.83	3.77
1.50	1.25	4.00
2.00	1.67	4.24
2.50	2.08	4.49
3.00	2.50	4.74
3.50	2.92	5.01
4.00	3.33	5.28
4.50	3.75	5.56
5.00	4.17	5.85
5.50	4.58	6.14
6.00	5.00	6.44
6.50	5.42	6.75
7.00	5.83	7.07

Here's how to use the mortgage payments calculator: A £100,000 mortgage over 25 years, charged at a 2% interest rate would cost 100 x £4.24 (for Repayment) = £424 per month.

* Excludes any payments to a separate savings scheme, to help pay off the capital amount borrowed.

This calculator only provides a guide to monthly payments and does not guarantee eligibility for a mortgage. The actual amounts that you may have to pay may be more or less than the figures shown. Please contact us for a personalised illustration.

Protect your FAMILY

Despite healthier lifestyles and improving medical know-how, on average, around 125 adults, aged 18-55, still die every day.

(Source: Office for National Statistics, 2016 UK figures, released July 2017)

If a main wage earner in a family with young children died, would the family be able to cope financially, quite apart from the emotional turmoil?

Whilst there may be life cover in place to help pay off the mortgage, what about ongoing everyday items such as food, clothes, utility bills, childcare, or other expenses like holidays and university costs?

This is where a **Family Income Benefit** plan could deliver much-needed support. Unlike normal life cover - which is designed to pay out a lump sum on death (and may be earmarked to pay off the mortgage) - family income benefit provides a regular tax-free income for your loved ones from the time of the claim to the end of the plan term.

Why take it out?

If you're a parent with children at home, then it may make sense to have a specific plan in place to help meet their needs, in addition to any general life cover you may have.

To reflect this timeframe, family income benefit is often taken out over a 10 to 20-year term, or whatever may be appropriate in your circumstances. The idea is that should you have to claim, then it is in place to pay out until the children have grown up.

How it works

It's generally viewed as a good value plan. This is because the potential 'total' payout over time decreases the further through the policy you get, which is reflected in a lower premium cost. You decide how much cover you may need (within the terms of the chosen policy) and for how long you want the cover to run.

For example, if you took out a 20-year term, which was set up to pay out £20,000/year and it was claimed against after one year, then the family would receive £20,000/year for the next 19 years, equating to a total payout of £380,000 (if there was no index-linking).

However, if for the same plan, there wasn't a claim until 18 years into the policy term, the total payout would be just £40,000.

FAMILY INCOME BENEFIT

- Help secure your family's future with a regular income.
- As the payout exposure for the insurer reduces over the time of policy period, up to the point of claiming (if at all), the level of premium you pay reflects this.
- This is a protection policy only. The plan has no cash value and will not pay out if you reach the end of the policy period without making a valid claim.

If, fortunately, there was no claim at all within the 20-year period, then the policy simply runs the whole term without any payout. Hence the reason that the monthly cost of this cover may be more affordable, which could make the difference for some between taking out the insurance or not.

To conclude

This type of policy shouldn't be taken out to cover your mortgage or other debts, as insurance that pays out a lump sum is usually more appropriate for that. However, family income benefit is worth considering if you want to make sure your family receives an income for a given time, should you or your partner die.

Why not talk to us to find out more.

As with all insurance policies, terms, conditions and exclusions will apply.

■ **We cover mortgages, insurance and protection products along with a number of other financial areas, so do contact us if you'd like to discuss your financial needs: Tel: 01604 877999 Email: enquiries@grangemortgages.com Web: www.grangemortgages.com**