

# the mortgage

The mortgage bulletin from Money for Life

Total UK mortgage debt now stands above £1 trillion, requiring the average homebuyer to borrow a multiple of around 2.95 times their annual income.  
*(Source: Bank of England, July 2006; CML, 2005 figures)*

# Looking ahead

» But let's put the above amount into context, the £1 trillion level of borrowing is dwarfed when compared with UK households' gross wealth in residential property of £3.6 trillion in 2005, according to the Council of Mortgage Lenders (CML).

And this figure would have grown further with the housing market flourish in the first half of 2006, when prior estimates of house price inflation had been relatively modest.

The CML attributed the good demand for housing to consumer confidence, and anecdotal evidence that suggested strong buy-to-let lending in this period, which resulted in higher prices.

So what should those wishing to remortgage in the current climate be

doing? Fixed rate deals have been the most popular option and accounted for 70 per cent of mortgages taken out in the first half of 2006. These give you the security of knowing how much you will have to pay for the fixed period.

*(Source: CML, August 2006)*

## Alternatives to Fixed

More recently, other forms of lending are gaining interest too, and may deliver better options to meet your needs. Products such as Tracker mortgages, which move broadly in line with the Bank of England base rate, or Discount mortgages, which give you a discount off the lender's Standard Variable Rate (SVR).

And if you'd like to keep your options open, a halfway house could be a 'switch-to-fix' deal that's available with some

tracker mortgages. This enables you to switch from a tracker into a fixed rate at any time during the term of the mortgage, although it's likely that the fixed rate would be higher.

## Massive choices out there

Whatever you want to do, the choice of mortgage products is now huge.

Mortgage experts say there are over 2,500 mortgages on offer today - twice as many as 15 years ago - if you consider all the variations of the different types of mortgage - from fixed, discounted, tracker and capped mortgages, to more complex flexible and offset mortgages.

**Of course, there may be additional costs attributable to remortgaging. So whatever your needs, let's see if we can help find the most suitable deal for you.**

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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**, cover the outlook for the **Buy-to-Let** market, and set out the importance of life cover in the form of **Family Income Benefit**. We also highlight some **websites** that provide details about actual house price sales and much more, and end with a look at the benefits of **Flexible mortgages**.

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■ **Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on your mortgage.**

# Family Income Benefit

If the breadwinner in your family died, would the family be able to cope financially?

» The likelihood is that there would be some life cover to pay off the mortgage.

But what about providing for everyday items such as food, clothing and petrol or other expenses such as holidays? If the life assurance in place is only sufficient to pay off the mortgage, where are you going to find the cash for everything else?

The answer could be **Family Income Benefit** - a tax-free, monthly or annual income which pays out on the death of the assured and can be particularly useful if you have young children.

If you have just been bereaved, the last thing you want is to have to get your head round complicated financial matters. So a monthly income, which should start paying out straight away, could seem like a godsend.

The idea is that Family Income Benefit should be arranged to pay out until the children have grown up, so it's often taken out over a 10 to 20 year term, or whatever is appropriate in your circumstances.

If you want the benefit to increase each year, you can arrange for your policy to be index linked so that your monthly or annual income rises in line with inflation.

Some insurance companies also provide Family Income Benefit policies which will pay a monthly income in the event that the assured suffers a Critical Illness, rather than on their death.

This means that if they have a serious illness, such as stroke, or forms of heart attack and cancer specified by the policy, and is off work for months, the Family Income Benefit will kick in, either as an income or a one-off lump sum.



## You don't need to be *Sherlock Holmes...*

...to spy on your existing or potential neighbours, thanks to websites which now do the work for you.



» If you want to know the 'actual' sale prices of the properties sold in a particular street since 2000, then take a look at [www.nethouseprices.com](http://www.nethouseprices.com).\*

If instead it's an area within the UK that you're interested in, then these sites are for you.

[www.neighbourhood.statistics.gov.uk](http://www.neighbourhood.statistics.gov.uk) covers primarily England and Wales.

This will give you more general information about the area, such as access to services, its crime and safety record, educational and training facilities,

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The success of the buy-to-let market continues apace, despite tighter regulation of certain types of property such as Homes in Multiple Occupation since July this year.

# THE LANDLORD

» The Association of Residential Letting Agents (ARLA) survey of 10,000 landlords showed that two-thirds expected to acquire new properties in the coming year and that, even if house prices fell, nine out of 10 would not sell.

Nearly half of the respondents also said they had invested in buy-to-let properties to create a nest egg, with 43 per cent looking for rental yield and capital appreciation, whereas only 6 per cent said they were investing for income only. (Source: ARLA, June 2006)

So where should landlords buy for the best future returns? ARLA spokesman, Malcolm Harrison, says: "It is impossible to recommend hotspots because the moment you do, they become tomorrow's low spot. If you are investing, all the usual warnings apply."

"Do your research. Speak to the local ARLA agent to find out where the market is. It is the agents who see the tenants, know who

they are, what they want and how much they are willing to pay. Then see if the rent you can achieve will cover your mortgage by at least 125 per cent."

But landlords face tighter regulation, although there is some respite with the start of the compulsory deposit protection scheme for landlords and tenants having just been delayed six months to April 2007 ([www.tds.gb.com](http://www.tds.gb.com)). This scheme is applicable to England and Wales, although Scotland and N. Ireland will monitor how it beds down.

The other major piece of new legislation affecting landlords in England is the requirement for Houses in Multiple Occupation (HMO) to be licensed by the local authority.

Whilst this shows that you need to be aware of the regulatory requirements, it's not dissuaded the existing army of landlords as the research findings show. If you would like to hear more, then please get in touch.

**Not all Buy-to-Let Mortgages are regulated by the Financial Services Authority.**

## NEWS NEWS NEWS Self-help

According to recent Bank of Scotland research, the self-employed audience represents 13 per cent of the UK population and six out of ten feel that lenders are unsympathetic to their needs. Of those questioned, 50 per cent felt flexibility was an important aspect of a self-cert mortgage, allowing them to underpay or overpay, as income fluctuates.

(Source: Bank of Scotland, July 2006)

→ healthcare, income, lifestyle and housing.

The figures mostly concern areas the size of a council ward, with populations of around 1,500, whereas school figures tend to cover wider areas. The statistics even cover life expectancy, how many children in local schools get good GCSE grades, ethnic make-up and how many people own their own homes - all useful information.

[www.sns.gov.uk](http://www.sns.gov.uk) provides a similar set of statistics for Scotland.

[www.ninis.nisra.gov.uk](http://www.ninis.nisra.gov.uk) does the same for Northern Ireland.

Either it's a snooper's paradise, or on a more serious note, it means you can check out the area where you're considering buying a property to get an idea of what it's really like.

*\* Covers England, Scotland and Wales, there's no similar service for property sales in Northern Ireland. We are not responsible for the content of the websites.*

## Onto the first rung...

An increasing number of first-time buyers are turning to their parents for help to get onto the property ladder.

Various options are open to parents, and one route is to take out a **Guarantor mortgage**.

This involves the lender taking the parents' income into account when deciding how much to lend. The idea is to enable the first-time buyer to borrow more than would normally be allowed, based solely on their own earnings.



Once their salary increases, the child can normally release their parents from acting as guarantors. At least, that's the idea!

But there are risks. For instance, if the child stops paying the mortgage, the parent - as guarantor - would be liable for the full amount of monthly payments and the parent's home may be at risk if it has been used as additional security for the child's mortgage.

Also, your liability as guarantor may also affect your own ability to borrow in the future, if five years down the line, you want to raise money yourself by remortgaging.

**As the issues can be quite complex, talk to us first to decide on what's the best step for you.**

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# Flexible Mortgages

Flexible mortgages allow you to vary when and how you pay off your loan.

## How does it work?

The amount you pay is credited to your account straight away and interest is calculated on a daily basis so that you immediately get the benefit of that payment. By making overpayments you reduce the capital you owe to the lender so that the amount of interest charged falls.

## What are the advantages?

You can save money clearing your mortgage more quickly. You also have greater flexibility because you can vary how much you pay to reflect changes in your financial circumstances.

## What are the disadvantages?

There isn't the same amount of choice of fixed, discount and capped rate mortgages as there is for standard mortgages. And some standard mortgages may also offer a degree of overpayment/underpayment flexibility.

## How and when can I make overpayments?

Most providers will allow you to set up a regular overpayment facility

whereby you overpay your mortgage weekly, fortnightly or monthly or you can pay off chunks via lump sums. Some lenders impose a limit on how much you can repay each year.

## Will I be penalised for making overpayments?

Normally no, but if you have a discount, fixed or capped rate flexible mortgage an early repayment charge will usually apply during the term of the discount, fix or cap.

## Can I underpay or take a payment holiday?

Yes, most providers will allow you to reduce your monthly payment for a period or stop making payments for a set term, providing you have made some overpayments in the past to cover this.

## Can I make lump sum withdrawals?

Yes, normally up to the limit of the total loan or your overpayment reserve, depending on the specific terms laid down by your lender.

## Any other features?

Some flexible mortgages allow you to offset any savings you hold with the same institution against your loan, reducing the amount of interest charged.

## Who are they suitable for?

Individuals who have fluctuating earnings, plan to take a career break or expect to receive large lump sums from commission, bonuses or inheritances which they wish to use to pay off their mortgage early.

## How much could I save by making overpayments?

£ Monthly overpayment	Mortgage term	Total £ cost
0	25 yrs	157,839
50	21 yrs 2 mths	145,817
100	18 yrs 4 mths	137,572
150	16 yrs 3 mths	131,525

(Source: Scottish Widows Bank, July 2006)  
 Figures assume a £90,000 repayment mortgage, 25 year term, 5% mortgage interest rate.  
 The overall cost for comparison is 5.1% APR

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## 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     Protection products  
 Insurance products     Buy-to-let     First-time buyer  
 Flexible mortgages     Secured loans     Buying a second home  
 General mortgage information

Other (please specify) \_\_\_\_\_

Please do not send any further issues

Name (Mr/Mrs/Ms) \_\_\_\_\_

Address \_\_\_\_\_

Email \_\_\_\_\_

Tel (+ best time to call) \_\_\_\_\_ Signature \_\_\_\_\_

Please put the coupon in an envelope and post to:

**Money for Life, Suite G, Gostrey House, Union Road, Farnham, Surrey GU9 7PT**

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 arranging a mortgage and the precise amount will depend on your circumstances.

■ The contents of this newsletter are believed to be correct at the date of publication (November 2006).

■ 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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