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FINANCE  
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YOUR WINDOW ON  
FINANCIAL MATTERS

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## IS BUY-TO-LET ON ITS LAST LEGS?

Many commentators correctly predicted that the first few months of 2016 would see high levels of activity in the housing market. The Council of Mortgage Lenders<sup>1</sup> reported that the change in Stamp Duty Land Tax (SDLT) on second homes introduced at the beginning of April boosted activity, with the value of buy-to-let loans reaching £7.1bn in March – up by 142% on the figure for March 2015.

All of which means that for first-time buyers the next few months could be a good time to enter the market. They are less likely to find themselves in competition with buy-to-let investors for the same entry-level properties now that second homes face a 3% SDLT surcharge.

For example, someone purchasing a second home or buy-to-let property for £200,000 prior to 1 April 2016 would pay just £1,500 in SDLT. Now, a landlord purchasing the same property would see their bill rise to £7,500.

That's not all, mortgage interest relief is set to change from 6 April 2017. Landlords who have been able to claim tax relief worth 40% or 45% will find their relief restricted to 20% once the changes are fully implemented in

April 2020. Currently, those with buy-to-let mortgages can deduct all finance costs in arriving at their rental income. From April 2017 this will no longer apply. Instead they will receive a basic rate reduction from their income tax liability for their finance costs. In addition, from April 2017 the 10% wear-and-tear allowance will go and landlords will only be able to deduct costs they have actually incurred.

It's generally expected that the buy-to-let market will be far less active as landlords take stock and look more closely at their income position once the new tax changes start to take effect. However, with interest rates remaining low and investment markets showing increased volatility, would-be landlords may still decide that property remains a good investment choice for their money. Some would argue that rents could continue to rise steeply, or that property values will continue to appreciate at the same rate as they have done over the last few years. However, it's important for anyone thinking of entering the market at this point to do their sums carefully and be aware that house prices aren't guaranteed to go on rising. Some buy-to-let investors are turning themselves into companies to mitigate the tax changes.

<sup>1</sup> Council of Mortgage Lenders, Home-owner house purchase lending up 60% year-on-year in March, May 2016

## NEWS IN BRIEF

### First-time buyer and remortgaging activity soars

Recent Q1 figures from the Council of Mortgage Lenders<sup>1</sup> (CML) show that March was another buoyant month for the UK property market. First-time buyers and those remortgaging their existing property were particularly active.

First-time buyers borrowed £4.5bn in March, up 29% on March 2015. 28,100 loans were taken out, up 17% year-on-year.

Remortgage activity was up 25% from a year ago, with 28,000 loans taken up totalling £4.7bn. This was significantly higher than for the comparable period of 2015 and represents the highest amount borrowed since February 2009. Remortgaging was also up in the buy-to-let sector, experiencing substantial increases.

The total amount borrowed for home purchase represented the highest figure for the month of March since 2007. The CML attributed the continuing high levels of activity to a growth in wages, further falls in unemployment, and the help provided by Government schemes and competitive mortgage deals.

<sup>1</sup> Council of Mortgage Lenders, May 2016

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

## EQUITY RELEASE HITS NEW HIGHS

According to figures from the Equity Release Council<sup>1</sup> (ERC), lending against the equity in residential property grew by 21% in the first quarter of 2016, the highest recorded level for the first quarter of any year, underlining the importance housing wealth continues to play in retirement planning.

Older people who bought their properties many years ago can often find themselves asset rich but cash poor, sometimes living on low incomes but often living in valuable family-sized properties. Whilst downsizing is an option for some, there is often a lack of suitable retirement property available. Buying and selling property at any age can be a stressful and expensive process, and moving away from family, friends and local amenities can often seem a step too far.

### STAYING PUT AND ACCESSING CASH

For that reason, the last decade has seen equity release become an increasingly

popular way for those aged over 55 to access the equity tied up in their homes, whilst continuing to live in familiar surroundings. Data from the ERC shows that in 2015 the average amount borrowed was £76,670.

The money released can be used in a variety of ways. The ERC reports that the cash raised is used to clear mortgage debt or other loans, fund domiciliary care, make home improvements or simply as a means to bolster retirement income.

Equity release plans were in the past considered a controversial choice. However, new products that are underpinned by stricter industry standards and provide protection against negative equity, now offer a better deal to homeowners. Many are opting for the drawdown type of lifetime mortgage which

gives them the freedom to dip in and out of their housing wealth, and means that they can leave more of their equity intact to pass on as an inheritance to their families.

### ADVICE IS ESSENTIAL

Professional advice is essential; equity release isn't the right solution for everyone. Releasing cash from your home reduces the value of your estate and the amount of inheritance you leave, so you should involve your children and dependants from the outset.

<sup>1</sup> Equity Release Council, Equity Release Market Report, Spring 2016

**Think carefully before securing other debts against your home. Equity released from your home will be secured against it.**



## GETTING YOUR FIRST MORTGAGE – WHAT YOU NEED TO KNOW

These days, there's a lot to think about when taking out your first mortgage. It's usually the biggest financial commitment you're likely to take on, so getting advice really helps.

There are many different types of mortgage available, from standard repayment mortgages to mortgages which come with added extras like cash back or free valuations, or mortgages that cap the rate of interest you will be charged. The choice can seem bewildering without professional advice.

### HOW MUCH CAN I BORROW?

This is the big question. The answer to this used to be a multiple of your earnings based on your salary, or joint salaries if you were a couple buying together.

However, after the credit crunch the rules were tightened and mortgage lenders were required under the Financial Conduct

Authority Mortgage Market Review to use a different approach. Now, banks and building societies have to look very carefully at a potential borrower's financial position and ask some searching questions. They need to satisfy themselves that borrowers can comfortably afford their repayments and won't be putting themselves under financial strain now or in the future by taking on a mortgage commitment.

Mortgage advisers can be a tremendous help at this point. Whilst lenders are all bound by the same rules, there are variations in the way they interpret them. Mortgage advisers know the lenders' criteria and can help you present your application to the most appropriate lender, saving you time and stress.

### DEPOSITS – THE BIGGER THE BETTER

In the current market, the more you can put down, the lower the interest rate you are likely to be offered. Many lenders are prepared to lend purchasers up to 95%



of the property price, with the borrower putting in the remaining 5% as a deposit. However, better deals and rates are available to those who can put down, say, 20% or more.

If you're thinking about buying a property, it pays to talk to your mortgage adviser as soon as possible – they can make sure you get a suitable mortgage for your financial circumstances.

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

# HOME INSURANCE – CHECK NOW – OR PAY MORE LATER

It's tempting, when your home insurance renewal notice comes through the door or into your inbox, to glance at the new quoted premium and, because of the demands on your time, allow your insurer's 'auto-renewal' facility to automatically accept their quote.

You may not remember taking up this auto-renewal facility. Insurers argue that it prevents any lapse in cover but are increasingly suspected of preferring that their customers agree to this option in order to avoid revealing how much their quoted premium may have increased.

The Financial Conduct Authority (FCA) has made proposals for insurers to include specific information about any increase in premium and advise their customers to shop around for comparison quotes. Since March 2014, energy companies have had

to include information on their cheapest tariffs for customers. It's argued that if home cover insurers were forced to follow suit, 'teaser' rates would disappear and fewer 'loyal', claims-free customers punished for failing to carry out comparison price checks. Every customer has the chance to reject a premium and shop around for a better deal. Sharp increases in premiums are often of particular concern for the elderly. More likely to assume that their insurer has their best interests at heart and often lacking the necessary IT skills to navigate price comparison websites, they are more likely to accept the quoted price, laying themselves open to steep, unjustified hikes in the cost of cover. Furthermore, auto-renewal carries with it the risk that the policyholder's circumstances may have changed, so that the same level of cover could be insufficient, or even invalid.

Many insurers continue to rely on 'customer inertia' to boost profits. Research<sup>1</sup> into motorists' renewal habits estimates that auto-renewal is costing



them an unnecessary £1.3bn in premiums each year.

## GET PROFESSIONAL HELP

Your adviser can offer you knowledgeable advice about the cover that best suits your circumstances and find you the keenest quotes from reputable providers. Until customer loyalty begins to be properly rewarded by the insurance industry, shopping around is essential when renewal time comes around.

<sup>1</sup> Moneysupermarket, 2015

# GRANNY FLAT TAX REPRIEVE

The Government has announced changes to the new rules on Stamp Duty Land Tax (SDLT), as it emerged that people buying homes with granny flats would also face higher charges. Fears were expressed that the additional charge of 3% would act as a disincentive for families to look after elderly relatives and offer them accommodation in later life.

The new surcharge which came into effect on 1 April meant that anyone buying a second property would be set to pay an additional 3% in SDLT. The new rules had stipulated that the surcharge in SDLT applied to purchases of property comprising more than one unit. This meant that anyone buying a house with a granny flat or annex attached would have been subject to the higher rate.

Following lobbying by, amongst others, Sir Eric Pickles, the former Secretary of State for Communities and Local Government, the Treasury announced in early April that

the rules would be amended. Under the revised regulations, the higher rate of SDLT will only be applicable if the additional home is worth at least one third of the total price being paid. The Government believes that this will iron out an area of unfairness and mean that properties with granny flats or annexes will now be subject to the same rates of SDLT as a main residence.

## HOW THE TAX WORKS

Some purchases will still be subject to the higher rate of SDLT. For example, the purchase of a house which has a separate basement flat that can be

accessed separately, has its own water and electricity supply, receives its own Council Tax bill and could be sold off on its own, will attract the higher rate of SDLT if the basement flat is worth at least a third of the whole transaction.

As an example, this means that anyone paying £450,000 for a house with a basement flat valued at £160,000 would face the surcharge.

The details aren't at present entirely clear, but the Treasury has said that anyone who had paid too much would now be able to apply for a refund.





# ANOTHER REASON TO PROTECT YOUR INCOME

In the July Budget last year, sweeping changes were announced to the Support for Mortgage Interest (SMI) welfare payment. This benefit is available to homeowners on a means-tested basis, if they find themselves unable to pay the interest payments on their mortgages because of unemployment, illness or disability.

From April this year, the rules have changed significantly. As before, the capital repayment of the borrower's loan remains their responsibility but homeowners can claim financial help to pay the interest due to their lender, at the current rate of 3.12% up to a maximum loan of £200,000 (or £100,000 if Pension Credit is received).

## ALL CHANGE

This benefit was previously received after a waiting period of 13 weeks and paid directly to the lender, without any time limit (unless the claimant was receiving jobseeker's allowance, when it is limited to two years). From April 2016, the waiting period was increased to 39 weeks, which means that homeowners will need to wait three times longer before receiving any assistance with the interest payments on their mortgage.

Furthermore, from April 2018, the payment will cease to become non-refundable and instead become a form of loan, repayable



once the homeowner's financial situation either improves or the house is sold – with interest. This major reworking of the SMI payment rules has been prompted by an attempt to reduce the overall welfare bill and remove what some saw as a benefit that subsidised property purchase.

## IT WON'T HAPPEN TO ME

Only 29% of workers have a financial safety net, according to research from a major insurer<sup>1</sup>. Others reported that they would dip into savings, rely on a partner's income, an inheritance or even consider downsizing to manage their situation. Furthermore, another study<sup>2</sup> from a major insurer showed that most families had only enough money to cover their household expenditure for about 29 days. "It won't happen to me" was the majority view of the survey's respondents, despite 50% knowing someone who had been prevented from working due to injury or illness.

## PROTECTION TO SAFEGUARD INCOME AND MORTGAGE PAYMENTS

It's reassuring to know that should you find yourself unable to work, your income can continue to be paid and your home protected, especially given a reduction in assistance available from the state. There are a wide variety of protection products that your adviser can guide you through, to establish what cover is required and the policies suited to your individual needs and circumstances.

As well as protection that pays out a regular income, a critical illness policy can pay a tax-free lump sum to you in the event of a serious illness or accident that prevents you from working. The protection provided by these policies will vary and your adviser can explain exactly what cover is provided. Knowing that you and your family are protected against financial stress when unexpected and unwelcome events come along makes sense for the security of you and your family.

<sup>1</sup> Aegon Research, September 2015

<sup>2</sup> Legal & General, Deadline to the Breadline Report, 2014

## NEWS IN BRIEF

### Why mortgages and Wills should go together

Making a Will isn't something you should overlook; if you have a mortgage it should be top of your 'to do' list.

When you buy a property, you're acquiring an asset. With a Will in place you will be able to leave instructions as to who inherits this asset on your death. If you die without leaving a Will, then your assets will be dealt with under the Rules of Intestacy, meaning that your property may not pass to the person you would have chosen to inherit it.

If you purchase your property with another person, there are two ways to do this. If you buy a property as a 'joint tenant', if you die your share will pass automatically to the other tenant.

If you buy as 'tenants in common', then you own a share of the property. If you don't have a Will, your property share won't automatically pass to your co-owner on your death. Under the Rules of Intestacy, some or all of your share of the property could pass to your children, parents or your brothers or sisters.

**It is important to take professional advice before making any decision relating to your personal finances. Information within this newsletter is based on our current understanding of taxation and can be subject to change in future. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK; please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation, are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.**