Spring 2012

the mortgage & protection news

The bulletin from Dale Eddison Financial Services

Covering key mortgage and protection issues

With lots of external influences, quite apart from what may occur on the domestic front, it's not easy to see how 2012 will pan out...

Looking Ahead

» There are various views on how the Eurozone crisis will impact upon the UK and how it will affect the environment for mortgage lending.

What is known, is that we currently have on offer some of the lowest average Fixed and Variable Tracker rate mortgage deals since records began. Which could be great news for those that want to remortgage. Alternatively, with the Bank of England Base Rate sitting at 0.5% (at the time of writing), it could be equally good for those who remain on a Variable Tracker product that's linked to it.

(Sources: Moneyfacts & Bank of England, Feb 2012)

Interest rate rises without a Base Rate rise?

A good number of existing deals will come to an end in 2012, with borrowers then reverting to their Lender's Standard Variable Rate (SVR). Overall, it's possible that at least 3.5m borrowers may now be sitting on an SVR!

And some may have already fallen victim to Lenders raising their SVRs, despite the Base Rate remaining stable, with a number of SVRs now well north of 4%.

(Source: Moneyfacts, Feb 2012)

Planning ahead

That's why it makes sense to consider this scenario. If your interest rate rose markedly within the next two or five years, would your monthly finances be able to cope or would you struggle massively?

It may be fine now, but much can happen over, say, the next five years. Think back to how different it was in 2007.

At the outset of the year Gordon Brown was still hoping one day to become Prime Minister and no-one had an iPhone. Facebook had only just been offered to the wider public, whilst the long-established Woolworths was on every High Street. Finally, landing a job at Lehman Brothers would have been a cause for celebration!

No one knows if the next five years will follow a similar path of massive change, but you need to be mindful of what you and your family's needs may be over this period of time.

Your next move

You may be tempted by the current crop of deals on offer. Although there's no guarantee that they'll be around into the longer-term.

Particularly as there has been some upward movement in the money markets which may result in more expensive deals, as the LIBOR and SWAP rates are a better determinant on future mortgage rates. SWAP relates to the cost of obtaining fixed term funding on the money markets and impacts upon Fixed rate

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Dale Eddison Financial Services
52-54 Kirkgate
Otley, West Yorkshire LS21 3HJ
Tel: 01943 465465
Email: enquiries@daleeddisonfs.co.uk
Web: www.daleeddison.co.uk

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Welcome.... to this newsletter, which covers what we believe are some of the key issues of the moment that affect mortgage, protection and insurance products - and sets out how we **may help you.**

We'll fight your corner

You're unlikely to attempt to build an extension, rewire your home or sell your house using solely your own efforts. You'd get in a professional, who will hopefully deliver peace of mind and get the job done...

As we set out on page 1 - there is so much uncertainty out there, it may be beneficial to have the guidance of a helping hand, irrespective of how financially aware you may be.

Take your **protection needs,** for example, there are a whole multitude of product types (and on-going innovations) to meet a host of differing needs. And that's before considering what may already be on offer from your existing employer or the State - as there's no sense in being over-insured.

Take basic Life Cover Term Assurance - did you know that the costs have largely dropped across the board in recent years? Elsewhere, there are upcoming issues such as the removal of differing 'gender' rates from December 2012, which will affect pricing across most products.

Why not have a chat with us to establish if you still have in place suitable protection for you and your family.

Mortgage issues

Again, like protection, it might make sense to reassess your mortgage needs too. Even if the upshot is to do nothing for now.

According to research by Barclays, a surprising 58% of homeowners say they have never remortgaged outside of moving home, yet the majority of those surveyed (74%) said that if they could save £50 a month on their mortgage payments, they'd do so! *(Source: Barclays, November 2011)*

And, with Lenders being particularly picky about whom they lend to these days, we can consider the wider marketplace to secure the most suitable outcome for you.

Like other professionals, we're here to make your life easier. We can take away a lot of the legwork, hold your hand through the process, liaise with the various parties involved and be readily available.

Hopefully, we can also add further value to the process, such as considering placing any life cover policies in trust. This may assist a speedier payout to beneficiaries and might also help minimise any future tax liabilities.

Do get in touch to discuss your needs.
As with all insurance policies, terms, conditions and exclusions will apply.
You may have to pay an early repayment charge to your existing lender if you remortgage.
The Financial Services Authority does not regulate Taxation or Trust advice.

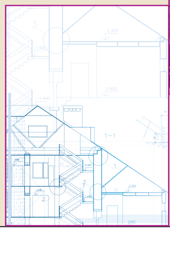
Boost for Buyers and Housebuilders

Two big issues for the mortgage market are the shortfall in the number of new homes being built and the scarcity of low deposit mortgage products to assist the First-Time Buyer.

Recent Government initiatives, such as the **Get Britain Building Fund** and the **New Build Indemnity Scheme** - aim to tackle both.

With regard to housebuilding, the number of new homes built is at its lowest level since 1949, with just around 135,000 being built across the UK in the year to March 2011. That's less than half of what Ministers say is required to meet demand. *(Source: Department for Communities and Local Government (CLG), Website 2011)*

Yet there are plenty of stalled projects, possibly 130,000, which need a boost to get going again - and the Government hopes the £420m fund it's setting aside for this, will get at least 16,000 of them up and running from July this year. *(Source: BBC/CLG Website, Nov 2011)*



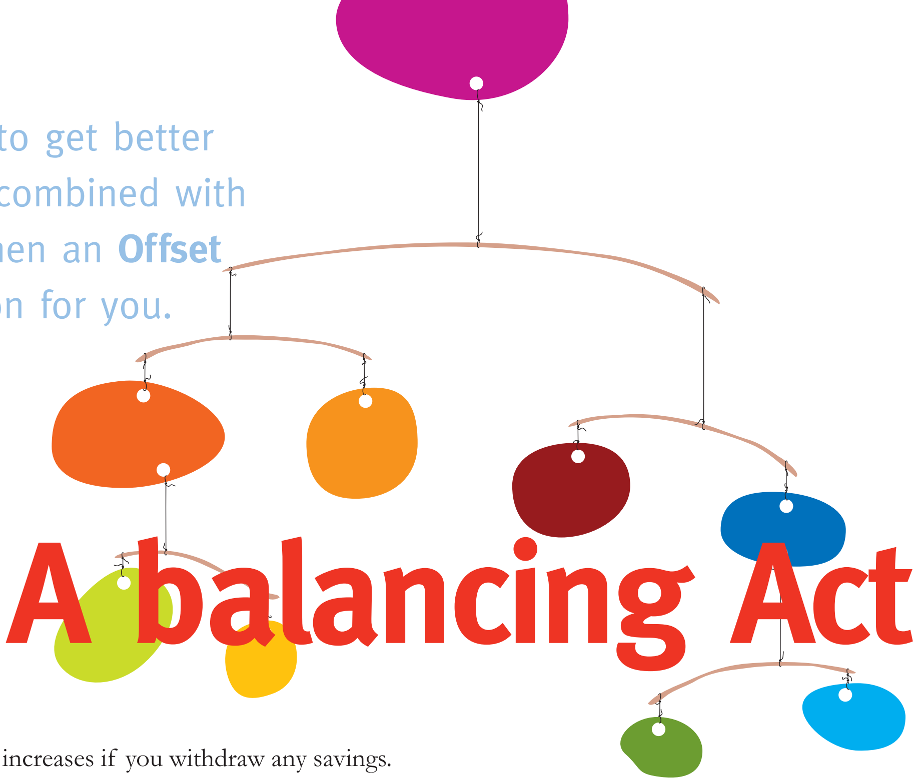
For the **New Build Indemnity Scheme,** the Government will work with the majority of Lenders to help provide mortgages up to 95% of the value of a newly built home - markedly reducing the deposit that people have to save. This scheme - where the Government will underwrite part of the risk - may assist around 100,000 buyers. And it's not solely for First-Time Buyers, although Buy-to-Let investors and second home owners are not eligible. It's currently only operating in England and should be up and running by March 2012.

However, there are other schemes offering varying degrees of support across the rest of the UK, including schemes provided through the Low-cost Initiative for First-Time Buyers (LIFT) in Scotland, the Co-ownership scheme running in Northern Ireland, or Homes within Reach in Wales.

Talk to us in order to discuss your mortgage needs.

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

If you're looking for a way to get better returns from your savings, combined with a flexible mortgage loan, then an **Offset Mortgage** may be the option for you.



A balancing Act

This product allows you to pool both your savings and mortgage with your lender, where the savings are then 'offset' against the mortgage capital.

If, for example, your mortgage loan is £150,000, but you have £30,000 in a savings account with the same lender, you will only need to pay interest on £120,000.

At which point you can choose how to benefit in two main ways:

- Either you have lower monthly payments, where your mortgage term remains the same, but you pay back less each month.

- Or a shorter mortgage term. Where you keep your payments the same, without allowing for the reduction due to using the savings.

Working for you

Either way, by opting to not earn interest on your savings, they are effectively working for you at the same rate of interest as your mortgage. The less attractive alternative is to earn a lower level of savings interest, which is then normally subject to tax too.

And the beauty is that you can have access to your savings, if wanted, as it's not used to actually repay any of your mortgage, it just sits alongside it. All that happens is that the amount of mortgage interest paid increases if you withdraw any savings.

There are other benefits too. For example, with some products, there may even be the opportunity for parents (or grandparents) to use their own savings to help offset their children's mortgage.

Flexibility

Another advantage of Offset Mortgages is that it may give you the flexibility to underpay or take payment holidays, providing you have made sufficient overpayments previously to cover this.

This may appeal to people with fluctuating earnings, commissions, bonuses, or who work freelance and have to set aside a large lump sum to pay the taxman, as they might want to put this money to good use via an Offset.

But Offset Mortgages will not be for everyone. And the interest rates may be less competitive than those offered for a conventional mortgage. So we'd need to do the maths for you.

If you'd like to see how you could give your mortgage payments a helping hand, then talk to us, to see if Offset suits your needs.

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

Did you know?

You will know that it's important to have Life Cover in place. You may additionally be aware that it's in your best interests to write a Will. And also know that by placing your Life Policy in Trust , it should help to speed up the payout of a claim, and might protect it too from being added as part of your Estate.

However, were you aware of what would happen if there was a child or children and their parents both died, with no Will or Guardianship arrangement in place?

Irrespective of any family support, in the eyes of the law the child (children) may be placed immediately in Care, whilst guardianship is being sorted out!!

Talk to us, to find out more...

The Financial Services Authority does not regulate Trust Advice or Will Writing.

You've probably heard a lot about Buy-to-Let in recent months, but have you ever considered Let-to-Buy?

Let-to-Buy

Imagine you've found the property you want, at an excellent price, but can't sell your existing home. Let-to-Buy may offer a solution, where you rent out your current home (with your rental income probably needing to be about 125% of your mortgage payments to cover maintenance, voids, etc), and then secure a new mortgage against the new property.

Of course, you'd need to get your existing Lender to agree to this (and they may want to charge slightly more if they convert the loan to a Buy-to-Let mortgage). Additionally, you need to be aware that you would be taking on a second mortgage.

So you would have to weigh up the risks before proceeding - should you feel that this approach may be the 'chain-breaker' for you.

The Financial Services Authority does not regulate most Buy-to-Let mortgages.

There is no guarantee that it will be possible to arrange continuous letting of the property, nor that the rental income will be sufficient to meet the costs of the mortgage.

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

Unlock the potential...

The last year or so has been a good one for the Buy-to-Let sector, with the continued high demand for renting, resulting in decent rental incomes and lower periods of voids.

» In short, existing and aspiring Landlords are benefiting from the lack of available housing and the problems faced by First-Time buyers.

And, according to recent research, in 15 years time, there may be more renters in the UK than homeowners.* When you consider that renting is far more prevalent in Europe's most successful country, Germany, perhaps attitudes may be starting to change!

*(*Source: Grainger, November 2011)*

Positive Outlook

More than half (56%) of the Landlords who took part in a recent quarterly survey said that they expect tenant demand to either grow or boom this year, which compares to 45% who were asked the same question at the end of 2010. Only 6% of those questioned thought that tenant demand would decline in 2012.

When asked whether they thought rental income would increase during the next 12 months, 45% of Landlords surveyed said that levels will increase, whereas 53% felt that it would remain stable - only 2% said that it would decrease.

(Source: Paragon, Q4 2011 survey, released January 2012)

Let's not get ahead of ourselves!

Whilst the improvement of the products on offer resulted in 124,000 Buy-to-Let loans in 2011, which was a sizeable 32% up, year on year, the market has not fully recovered if you consider that the comparable period in 2007 generated a massive 346,000 Buy-to-Let loans! *(Source: Council of Mortgage Lenders)*

Currently, it's the Landlords with two or three properties, which are let to standard tenants, and require a low loan-to-value mortgage, that are best catered for. Other renting scenarios such as houses in multiple occupation, housing association lets, students and tenants on housing benefit will require more effort to seek out suitable deals.

Do take advice

We can help you to assess your long and short-term plans, when looking at the length of deals on offer. And you'll also need to consider how interest rate and house price moves may impact upon you, along with other costs you may face along the way, such as renovations and regulatory requirements.

As for the basics, in general, Lenders continue to look for a deposit of 25% or more, although there is a small trickle of 20% deposit products coming back to the market.* The minimum rental requirement generally sits around 125% of the rental return against the mortgage payments - to help cover any additional costs or voids. *(*Source: Moneyfacts, February 2012)*

Please get in touch to find out how we can help.

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

There is no guarantee that it will be possible to arrange continuous letting of the property, nor that the rental income will be sufficient to meet the costs of the mortgage.

The value of your Buy-to-Let property and income from it can go down as well as up.

You may also require advice on the legal and tax issues.

The Financial Services Authority does not regulate legal and taxation advice, and most Buy-to-Let mortgages.

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deals, with LIBOR (the cost of floating rate funding) affecting Variable Trackers.

Even the Bank of England has intimated that Lenders may now pass onto household and corporate borrowers their higher cost of funding.

(Source: Bank of England, Financial Stability Report, Dec 2011)

Attitude to risk

The bigger margin currently applied by Lenders for Fixed rates means that borrowers willing to take a gamble on rates rising slowly may be tempted by Variable Tracker rate mortgages, that will look better value at the outset. And there may be the option with some products to switch to a 'Fix' at a later date (subject to rates at that time).

Alternatively, the possibility of obtaining a 'decent' Fixed rate may deliver the security needed to help see you though the next few years, especially if you feel rates may start to rise by a sizeable amount.

Of course, there are a whole host of issues that would also need to be considered before you opted for any new mortgage deal, so **do get in touch** and we can then identify the best route forward. This may well be to continue to remain with your current deal. But it is important to reassess, just to see if a new strategy may now work better for you.

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

■ 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: 01943 465465 Email: enquiries@daleeddisonfs.co.uk
Web: www.daleeddison.co.uk

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

We are independent and for arranging a mortgage we offer our clients the choice of either paying a fee (typically £250 on application plus 1% of the loan amount on completion). For example, on a £100,000 mortgage, our fee would be £1,250. Or we can receive our payment from the lender in the form of commission. If you choose to use our fee option we will refund any commission we receive from the lender.

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