MORTGAGEMATTERS
ISSUE 9

Suite 4.2 Station House 34 St Enoch Square Glasgow G1 4DF
T: 0141 243 2475 **E:** info@ernetwork.co.uk
F: 0141 248 7888 **W:** www.pivotalfinancialplanning.com

MORTGAGES – PREPARING FOR A RATE RISE

Normally, the summer months represent a quieter period for the mortgage markets; however this August saw mortgage approvals increase to their highest level since February 2014, according to figures from the Bank of England. The availability of cheap loans and the widely-reported view that interest rates will have to rise at some point, probably by early 2016, fuelled the increase.

Reading the signs

As to the timing of the UK's rate rise, Deputy Governor Ben Broadbent told the BBC in early August that the Bank will not be issuing warnings of an imminent rate rise. He commented that: "It would not just be impossible, it would be foolish to pre-announce some fixed date of interest rate changes."

Figures from the Council of Mortgage Lenders (CML) showed that remortgage lending surged in June, up 34% year-on-year to £5.1 billion, a sign that borrowers were protecting their finances against the effects of an early hike in rates. According to the CML, whenever rates rise it will be a new experience for more than one million homeowners who have experienced a prolonged period of time when rates were either falling or static at 0.5%.

Preparing for a new scenario

The Governor of the Bank of England has always maintained that when rates rise, they will do so in gentle increments, typically smaller than the half of a percentage point that was commonly used before the recession in 2008. He maintains that it will take time for any increase in interest rates to feed through into the economy, and that the peak impact is likely to be around 18-24 months after the Bank's Monetary Policy Committee makes its move. He also forecasts that rates will eventually reach around 2.5%.

Mortgage moves

So how should borrowers react? If your current mortgage deal comes to an end shortly, you may find that your lender will automatically move your mortgage to their Standard Variable Rate, which will normally rise and fall in line with the Bank of England base rate, but can be subject to change at any time. Those who are looking for extra security and certainty may want to opt for a fixed-rate deal. Whilst tracker rates are cheap right now, they will be subject to rate changes when they arise.

It makes good sense to review your mortgage regularly and to discuss your requirements with your mortgage adviser. They will be in touch with the marketplace and know what rates lenders are currently offering and can help you find the right deal for your financial circumstances.

TIME TO GET YOUR HOME WINTER-READY

As the days get shorter and the weather turns autumnal, it is a good idea to make a few simple checks around your property to make sure that it is prepared for winter's chill, so that any period of prolonged bad weather does not take its toll.

External checks

It is worth spending a few minutes doing a visual check of your property:

- Before the gales and rain of winter come along, check that your roof is in good repair. Are there any loose or broken tiles? Is the flashing around chimneys secure? Apart from the damage that can be caused by falling tiles, their loss can lead to damage to the fabric of the building
- Make sure that your guttering is clear and free from obstructions like fallen leaves, moss and debris. Overflowing gutters can cause major structural damage to walls
- Water supply – it makes sense to drain or lag outside taps in case they freeze
- Walkways and paths – these should be kept clean and free from moss and algae so that they do not become a trip hazard if they freeze. It is worth keeping some de-icing salt handy in case
- Gates and fences need to be stable and in good repair to stand up to the winter weather
- Check that outside lights and security lights are clean and working properly
- Garden furniture, patio sets and children's garden toys should be stowed in a shed or garage to prevent winter damage.

Internal checks

Here are a few pointers to look for around your home:

- Central heating, boilers and radiators need to be regularly serviced. If you have boiler cover, make sure you keep the emergency contact telephone number at hand in case of need. Programming the central heating to keep the temperature around 13°C can help prevent burst pipes and water damage during spells of freezing weather

- Chimneys – if you have open fires, you will need to make sure they are regularly swept
- Water supply – make sure you know where the stopcock is located in case you need to turn the water off in an emergency
- Make sure you have the right level of insulation in your loft - 270mm is the government-recommended depth for insulation. Pipes and tanks should be lagged and the tank should have a lid fitted
- Alarm systems – smoke alarms need regular testing to ensure the batteries are in working order, and burglar alarms need to be maintained and tested especially as burglary rates increase in the winter months.
  It is worth checking your home insurance policy to see what cover you have for home emergencies and keep your provider's contact number at hand.

LIFE COVER – BACK TO BASICS

Despite the obvious benefits of having a life insurance policy in place, recent research has shown that less than a third of parents have adequate cover if they were unable to work due to illness or, worse still, were to die.

Why cover matters

If you need convincing that life insurance is a good product to buy, ask yourself this question: 'If you were to die, how much money would your family have to live on?' Many families would find themselves running short of money very quickly. Your salary would stop, but the household bills wouldn't.

A pay-out from a policy could make the difference between your loved ones facing a financial struggle at a challenging emotional time, and being able to maintain the sort of lifestyle they enjoyed when you were still around.

Even if you are not the main breadwinner, you may still be the primary care giver, providing housekeeping and other home-based services that are vital to your family's well-being and would cost a lot to replace.

How much cover do you need?

In order to reach a satisfactory level of cover, you need to think about the amount of debt you have, including your mortgage, your contribution to the family budget and the practical needs of your loved ones now and in the future.

It can be hard to gauge how much cover you need on your own; this is where it pays to work with your financial adviser. They have experience in helping families like yours get the cover they need and regularly research what's available in the market place and at what price.

Why it pays to take out a policy early

People often say that they are delaying taking out a policy because they think that the cost of cover can be prohibitively high. However, in reality cover can cost less each month than families often spend on coffee and cakes for a family treat.

It is worth bearing in mind that the younger and healthier you are, the lower your premiums are likely to be. As you get older, insurers will see you as a higher risk. Taking out a policy sooner rather than later means that you will pay a lower premium for the duration of the cover.

Meeting your lifetime needs

The great thing about life insurance is that it can be tailored to meet your needs throughout your life. People's insurance needs change when they buy a property, have a family, take on more debt or change jobs. Cover can be combined with protection against accidents, critical illness and unemployment too.

No-one can predict what the future holds, but we can certainly all make plans that will ensure that our families are adequately provided for should the worst happen.

A pay-out from a policy could make the difference between your loved ones facing a financial struggle at a challenging emotional time, and being able to maintain the sort of lifestyle they enjoyed when you were still around.

HELP TO BUY ISAS

Many first time buyers struggling to save enough to put down a deposit for their first home will welcome the government's new scheme to encourage home ownership. Called the Help to Buy Individual Savings Account (ISA), it launches on 1st December 2015. It is designed to help future first-time buyers aged 16 or older, faced with soaring property prices, save towards their first step on the property ladder.

How it works

Savers have the opportunity to contribute a maximum of £200 each month, with the government contributing up to £50 on top. Savers can put in an initial deposit of £1,000 when the account is first opened, and as an extra incentive to save, the government will pay a bonus of up to £250 on the full £1,000, plus another £50 for each £200 of monthly savings made after that.

The minimum savers need to accumulate to qualify for the bonus is £1,600, this will attract a bonus of £400. In order to claim the government's maximum bonus of £3,000, they need to save £12,000.

It is worth noting that couples buying a house together can each take out a Help to Buy ISA and together get a total of £6,000 in bonuses. This means that their maximum savings of £24,000 are boosted to £30,000.

Account interest

The Help to Buy ISA will be offered by banks and building societies and, as with cash ISAs, each will set their own rate of interest. So not only will savers earn interest on their savings, they will also get their bonus paid at the end.

Putting down the deposit

Savers do not actually receive the bonus until they put down a deposit on their first home and restrictions will apply. The maximum price of a property eligible under the scheme is £450,000 in inner and outer London boroughs, and £250,000 outside London. When it comes to taking out the mortgage, there is no requirement to take it out with the bank or building society where the Help to Buy ISA is held.

Limitations

The most you can contribute in each tax year to a Help to Buy ISA is £2,400, which falls short of the limit on ordinary cash ISAs which for the tax year 2015-16 is £15,240. Another limitation is that you can only have one cash ISA in the current tax year, meaning that you can't have both a standard cash ISA and a Help to Buy ISA at the same time.

However, this new account represents a real reward for those working hard to save up for their first home.

Not only will savers earn interest on their savings, they will also get their bonus paid at the end.

The value of the investment can go down as well as up and you may not get back as much as you put in.