

Mortgage & Protection news

The newsletter from HD Consultants

These are difficult times, but much is being done to tackle the impact of coronavirus. As part of this process, we can be there for you. We'd help explain some of the developments, and assist those that wish to act with regard to their finances.

COVID-19 - key action taken

Whilst delivering protection to the NHS is the government's primary focus, there is also a whole raft of multi-billion pound packages to help support the economy and people's income stream and job security:

1. Salaried (PAYE) workers

The Coronavirus Job Retention Scheme guarantees 80% of the salary of eligible workers, up to a ceiling of £2,500/month. See page 2 for more.

2. Self-Employed workers

A similar set-up for those eligible, with 80% of the self-employed workers' average earnings over the last three years (if applicable), up to a maximum of £2,500 each month. See page 2 for more.

3. Mortgage payers

The reduction in the Base Rate to 0.1% should benefit the mortgage deals on offer. However, a sizeable number of higher Loan-to-Value deals have been pulled, partly due to the increased workload faced by lenders.



This increased workload relates, to some extent, to supporting customers who are experiencing issues with their finances due to COVID-19, including payment holidays of up to 3 months. See page 2 for more.

4. Those off work

All of those advised to self-isolate - or caring for those self-isolating - will be entitled (if eligible) to **Statutory Sick Pay (SSP)**. For those who cannot claim SSP (such as the self-employed), there will be alternative comparable support through the welfare system. Additionally, the normal welfare options are in place, if unemployed.

5. Businesses

The recent Budget introduced a number of initiatives, such as the £30bn of support to

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

Keen to Act?

Despite the current environment, there are excellent mortgage deals out there (further improved by the cut in the Base Rate). This may motivate you to assess, for example, your remortgaging (or product transfer) plans* such as:

- needing to raise funds to further improve your **existing property**.
- looking for a new deal, as you're coming to the end of your **current one**.
- still sitting on your lender's more expensive **Standard Variable Rate**.
- simply wanting to identify a **better mortgage deal** than the one you have.

Whatever your plans, do be mindful, that partly due to the impact of coronavirus on the workload of lenders, a number of higher rate Loan-to-Value deals have been pulled.

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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 and protection products.

■ HD Consultants is an appointed representative of PRIMIS Mortgage Network. PRIMIS Mortgage Network is a trading style of Personal Touch Financial Services Ltd which is authorised and regulated by the Financial Conduct Authority.

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



We are there for YOU... (contd)

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stimulate the economy and help counter the impact of coronavirus.

And following the Budget, the Chancellor announced that he would make available a further initial **£330bn of government-backed loans** to assist firms of all sizes through this period.

Recognising the impact on many small and medium-sized businesses, assistance will also be delivered in areas such as reclaiming Statutory Sick Pay (SSP), business rates help, possible grants, more time to pay tax, and deferring VAT payments.

Further information about the support offered (along with the other initiatives mentioned here) can generally be found at www.gov.uk (then search for covid-19).

80% of Salary - Coronavirus Job Retention Scheme

Under this scheme, all UK employers will be able to access support to continue paying

part of their employees' salary for those employees that would otherwise have been laid off.

It would be applicable to those designated as 'furloughed workers' (people absent temporarily from work), and the HMRC will reimburse 80% of furloughed workers wage costs, up to a cap of £2,500 per month. This would run for an initial 3-month period, and possibly longer. HMRC are working urgently to set up a system for reimbursement.

This will hopefully keep a sizeable part of the workforce in their jobs and deliver an income stream for them through this difficult period.

Mortgage payment holiday

Mortgage lenders have agreed to support customers (including buy-to-let borrowers) who are experiencing issues with their finances due to COVID-19, including **payment holidays of up to 3 months.**

Whilst this may deliver much-needed financial help, do give consideration if this is the most suitable route forward for you.

Firstly, it's not waiving the money that's owed, as that's simply added to the overall outstanding amount, so you may be paying more for your mortgage in the long run.

Second, you need to agree this with your mortgage lender, so you can't just stop making payments, as that might also impact on your credit rating.

Finally, there may be other options to consider (if on offer), such as extending the length of the mortgage term to help reduce the immediate monthly payments (again, this would increase the overall cost of the mortgage). You may be able to pay a lower amount each month, or even switch to just paying the interest for a defined period (where the capital amount that's outstanding would remain the same).

If you do want to proceed, then you may need to be patient, as the lenders have been inundated with applications and calls.

Take control now...

You may not require government support, instead you could be keen to take advantage of the excellent mortgage deals currently on offer.

We'd currently expect more interest in remortgaging your existing property (and product transfers), than funding property moves. That said, the marketplace will, no doubt, be looking at innovative ways of how to make that supply chain work, in light of the need for social distancing.

Don't forget Protection cover

In these challenging times - whether you're still living at home, renting, or a homeowner - you'll also recognise the importance of having insurance cover in place to protect your life and/or loss of an income stream.

With so many issues to consider, and ongoing developments, it makes sense to see how we can help.

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

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

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

SELF-EMPLOYED NEWS

SELF-EMPLOYED INCOME SUPPORT SCHEME

■ This scheme will deliver a taxable cash grant of 80% of a self-employed workers' profits, up to £2,500 per month.

Those eligible will be able to both claim and continue to work.

The scheme will be open to those with a trading profit of less than £50,000 in 2018-19, or an average trading profit of less than £50,000 from the previous three financial years (2016-17, 2017-18 and 2018-19).

Another qualification is that more than half of the income in these periods must come from self-employment.

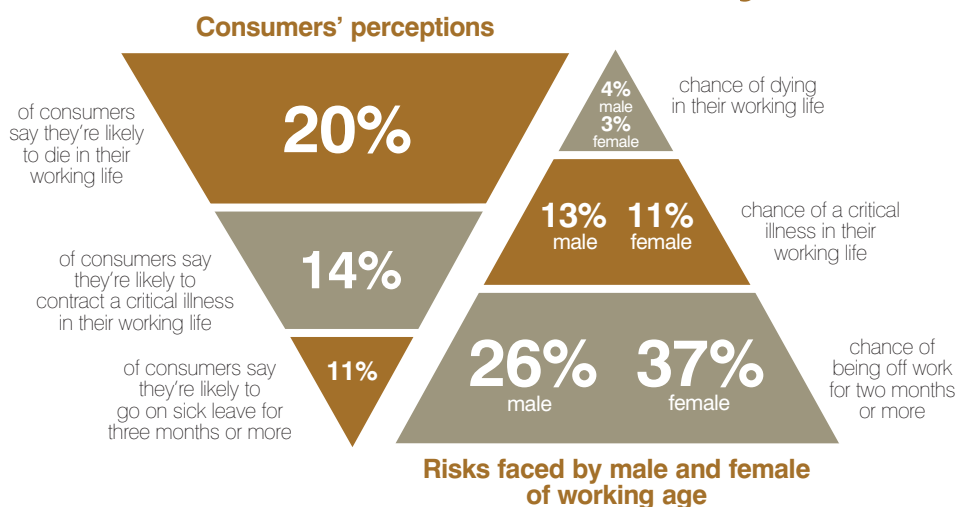
■ The scheme would cover a minimum period of 3 months, and possibly be

extended beyond that. The initial period covered would run to the 3 months up to May, but the complexity of setting it up would mean the back-dated payment would not occur until the beginning of June.

■ As self-employed status can be open to interpretation, do contact HMRC now to see if you are eligible.

■ Particularly as the government also announced that those who pay themselves a salary and dividends through their own company are not covered by the scheme, but will be covered for their salary (up to the eligible amount) via the Coronavirus Job Retention Scheme (see above).

Protection myths



(Source: Royal London, State of the Protection Nation, June 2019, referencing Pacific Life Re research)

We largely view 'death' as the most likely 'bad' health event that could affect us across our working lives. Yet, from the right hand chart above, you'll see that, in reality, you're far more likely to survive, and face a serious illness, or be off work for a lengthy period.

» That said, this doesn't mean that you should disregard taking out life cover, as research shows that, on average in 2018, around 272 UK adults, aged 18-65 died each day.

(Source: Office for National Statistics, 2018 data, Jan. 2020)

But possibly of greater importance is to consider further protection that's designed to lessen any loss of income should you face a serious illness, or be off work for a lengthy period.

There are two product offerings that can help protect you in these circumstances:

- **Critical Illness Cover** - pays out a lump sum when you have a specified critical illness.
- **Income Protection** - pays you a percentage of your monthly income when you can't work due to illness or injury.

Do they pay out?

Many assume that the plans don't pay up, yet a massive 97.6% of all claims were paid out in 2018, equating to £14.5m a day! (Source: Association of British Insurers, 2018 data, May 2019 release)

Do I even need it?

This is a possible further misconception, particularly as you may feel that it's difficult

to contemplate needing a protection policy, until **you really need it!**

Additionally, some will think that their employer will provide all of the support needed. This may be true, but do check your contract to establish the level of financial help you'd get, and (if it's not for death in service) for how long. Balance this with the care you receive from the NHS, and the limited financial support from benefits such as Statutory Sick Pay and Universal Credit.

Mental Health issues

In recent years there has been a far greater understanding of the need to deliver real and financial support to those insured who may suffer a mental health issue. Also, those that have previously faced this might feel that they would then be excluded from taking out future cover, such as Income Protection. However, some insurers may now take a more considered approach, rather than the standard 'accept' or 'decline' decision-making.

Added-value benefits

The insurance industry recognises that a payout upon claiming may be the initial driver in setting up a policy. But it's also aware that there is a real benefit - for both

parties - if a relationship is maintained throughout the policy term, as reflected by the following examples:

- Incentives to keep healthy.
- Specialist support - such as GP/nurse helplines, telephone counselling, carer support services, consumer rights, early intervention and rehabilitation services.

With such a wide range of options on offer, do talk to us, and you may also be pleasantly surprised at how little a plan might cost.

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

Standard Variable Rate

There are at least 1.4m mortgage borrowers on their lender's Standard Variable Rate (SVR).*

This is a sizeable chunk of all mortgage borrowers and with the average SVR sitting at 4.90%, this group would be on an interest rate that's around twice the average 2-year fixed deal cost.** For example, those on an SVR (if it's a £100,000 mortgage, for instance) might be able to remortgage and pay around £1,700 a year less (circa 5% rate vs. circa 2.5%).

(Sources: *UK Finance, June 2019 data;

**Moneyfacts, December 2019)

Circumstances have changed

Some may feel they can't remortgage because they won't meet the stricter affordability and evidencing of income criteria. This might be true, but why not have a chat, as there may be a solution.

Mortgage Prisoners

This broadly amounts to 150,000 borrowers, most of whom are stuck with a lender that no longer lends. However, the Financial Conduct Authority (FCA) has introduced new guidelines, which may overcome this problem, so do talk to us to hear more. (Source: FCA, Nov. 2019)

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

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



The positives for Landlords

Landlords have been under pressure in recent years due to the massive array of regulatory and tax changes, however, there remain many positives about this sector...

Enthusiasm from Lenders

Lenders are demonstrating a willingness to support the buy-to-let market with excellent mortgage deals on offer and increased innovation to help meet the varying needs of landlords.

With regard to rates, they continued to drop in the final quarter of 2019, with the greatest reduction on longer-term fixed rate mortgages. For example, a 70% Loan-to-Value, 5-year fixed rate mortgage was 4.4% lower than 12 months ago.* This may have assisted the growth in popularity of 5-year deals vs. 2-year ones.**

*(Source: *Mortgage Brain, December 2019, **UK Finance, December 2019 report)*

Tenant demand

Renting can provide greater flexibility than home ownership. Of those already renting, research shows that 75% were content with their situation, with 33% happy to rent forever. And of those who aim to buy a property into the future, they're prepared to wait 4.1 years, on average.***

Tenant demand could increase further, as 34% of landlords have indicated that they intend to reduce their investment in the market, with only 12% saying they're looking to expand the number of homes they rent out - possibly impacting on the supply of available properties to rent.****

*(Sources: ***Landbay, October 2019; ****Residential Landlords Association, December 2019)*

Record asking rents across the UK

According to Rightmove, the shortage of new stock to choose from, coupled with strong demand from tenants, has led to record asking rents in all but two regions (Scotland and the North East) in Q3 2019. *(Source: Rightmove, Rental Price Tracker, October 2019)*

Option of Limited Company status

Due to the tax changes, 63% of landlords say that they intend to purchase their next buy-to-let property within a **Limited Company** structure. This means that they shouldn't be affected by the tax relief changes, and lenders may apply a less stringent rental calculation as a result. *(Source: Foundation Home Loans, October 2019)*

This route won't be right for everyone, particularly those with just one or two properties. Also, interest rates may be higher, and there might be implications for both capital gains tax and stamp duty. That's why it's vital that you obtain tax advice from your accountant.

Where we can assist You

We can't avoid the fact that the private rented sector is affected by the political and economic climate, along with the tax and regulatory controls.

So it's important for landlords to continue to seek specialist advice from us to ensure you make the most of the borrowing rates, rental demand and innovative products out there.

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

HM Revenue & Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

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Assistance for the **SELF-EMPLOYED**



The number of **Self-Employed** workers in the UK has almost hit 5m (representing 15% of the total workforce), yet this group still faces problems when it comes to securing a **Mortgage** and has eligibility concerns regarding **Protection** cover. *(Source: Office for National Statistics, Labour market overview, December 2019)*

Securing a Mortgage

Whilst lenders may not necessarily view the self-employed as a greater risk to lend to, they do have issues about how to assess their ongoing income.

This is compounded by the way some self-employed organise their payments to ensure they're tax-efficient, which may work against them when endeavouring to demonstrate to a lender they have the ability to fund the loan they wish to take out.

The term 'self-employed' can also present a problem for lenders, as it pulls together a whole host of different individuals, such as contractors, sole traders, gig economy workers, freelancers, and early-stage start-ups. This could mean that a myriad of workers with differing income streams and earning potential are lumped together, resulting in the computer possibly saying: 'no'.

However, interestingly, those self-employed who have jumped through the hoops and secured a mortgage may be a safer bet than first-time buyers, for example, as analysis shows that they could have taken out a mortgage 29% larger than the original loan borrowed. *(Source: Kensington, Affordability Tracker, Q2 2019)*

Along with possible conversations with your accountant to discuss how your payments are structured to make you more appealing to a lender, it's vital that you also talk to us, to help identify the lenders that may be interested in doing business with you. And there are a number of them that are more amenable to this sector, and why wouldn't they be when there's a marketplace of 5m individuals to target!

Protection considerations

Nearly a third of self-employed and contract workers would run out of money within a month if an accident or illness stopped them working. *(Source: LV, November 2019)*

Should they be off work for a lengthy period due to illness or injury - the majority of self-employed workers will not be entitled to Statutory Sick Pay and would, instead, have to pursue a lengthy claim for benefits such as Employment and Support Allowance, and any other benefits, dependent on the severity of the illness. Yet it's unlikely that payouts would equate to the average UK household expenditure of almost £600 per week.

(Source: Office for National Statistics, Family spending in the UK, January 2019)

That's why it's possibly vital that the self-employed consider income protection, as well as life and critical illness cover.

Income Protection would deliver a regular income, for a short-term period, or even up until retirement. It could be highly relevant, yet many wrongly believe that they won't be eligible for it. That's why you should talk to us.

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

Income Protection

Here's a fictional example of how an Income Protection plan could play out...

Adam runs an IT consultancy. In the last tax year he earned a gross salary of £90,000. After reviewing his monthly expenditure he took out a Self-Employed Income Protection policy covering 50% of his annual earnings, totalling £45,000 or £3,750 per month.

He opted for long-term cover that would pay out the tax-free monthly benefit for as long as he may need it, if he was unable to work and earn an income. He also opted to defer any payouts for six months, as he had sufficient savings to see him through this initial period, resulting in cheaper premiums.

Two years after taking out the policy, he developed cancer, and his claim was approved. In total, Adam was off work for three years. Over this period, he received 30 monthly payments of £3,750, totalling £112,500, enabling him to meet his financial obligations whilst off work, and to focus his energies on recovery.

There are a multitude of providers and product choices to consider, so it makes sense to take advice.

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New Kids on the Block



If you're unsure about becoming a **First-Time Buyer** - research shows that the average homeowner could be better off by £352,500 over the next 30 years, compared to the average private renter!

(Source: Intermediary Mortgage Lenders Association, October 2019)

» That figure is comprised of the £133,700 the average homeowner could expect to save when paying for a mortgage rather than rent over that period, plus the additional £218,800 of equity gained from paying off that mortgage.

It doesn't include any possible house price inflation over the 30-year period. Historically though, house prices have risen at an average of around 4.3% a year over the last 30 years, although growth is far more subdued at the moment, at about 2.3% nationally, over the year. (Sources: Nationwide, House Prices, to Q4 2019, and February 2020)

Getting the Deposit together

So what's stopping all renters jumping on board? Some will prefer the flexibility renting provides at this period in their life. Others will be concerned that they may not meet the more stringent controls that are now in place for mortgage lending (do talk to us if that's your concern). But possibly the biggest stumbling block is the struggle to get together the deposit.

Fortunately, the government and marketplace recognise this and there are Help-to-Buy (or similar) schemes on offer, alongside normal lender products, that only require a **5% deposit**.

Additionally, if you have just a 5% deposit, and opt for a Help-to-Buy (or similar) scheme, generally for new-build properties, then

the government would loan an extra percentage enabling you to access the better Loan-to-Value (LTV) deals on offer. Broadly, the lower the percentage of funds you require from the lender, the lower the interest rate may be.

As part of that process you may also look to what's known as the **Bank of Mum & Dad** to help get some, or all, of that deposit together. In 2019, the average contribution from mum, dad, other family members and friends amounted to a sizeable £24,100, assisting almost 260,000 property purchases.

(Source: Legal & General, Bank of Mum & Dad, 2019 report)

Some parents might be wary of providing a deposit for a child who may be moving in with a partner, should they break up down the line. To counter this concern there are other ways that financial support could be provided, such as acting as a guarantor, which might provide some ring-fencing.

Outside of this, options such as **shared ownership** might also be worth investigating, which could help reduce the upfront costs.

Our offering

The irony for many will be that they could be paying more on monthly rent, than they would for a mortgage, proving they can afford the payments - but unfortunately, it's not as simple as that!

To take the first step onto the property ladder, it makes sense to have a conversation with us as early as possible in the decision-making process. We would help navigate you through the affordability, evidencing of income and credit rating hoops, and identify some of the decent deals that are on offer.

STAMP DUTY BENEFITS

First-time buyers in England and Northern Ireland continue to enjoy a lower stamp duty cost if the purchase price is £500,000 or less.* If it's £500,001+, then you still operate under the standard residential stamp duty rules:

Stamp duty is charged on the proportion of the price that sits in a band

Purchase price band	Standard rates for a residential property	First-Time buyers
Up to £125,000	0%	0%
£125,001 - £250,000	2%	0%
£250,001 - £300,000	5%	0%
£300,001 - £500,000	5%	5%
£500,001 - £925,000	5%	5%
£925,001 - £1.5m	10%	10%
Above £1.5m	12%	12%

* Different rules apply to Scotland and Wales.

HM Revenue & Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

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

We normally charge a fee for mortgage advice. The amount will depend on your circumstances. A typical fee would be £500.

■ The contents of this newsletter are believed to be correct at the date of publication (March 2020).

■ Every care is taken that the information in the *Mortgage & Protection News* publication 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.

■ We do hope that the newsletter is of interest to you, however, please inform us if you no longer wish to receive it.

■ 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: 01206 577 266 Email: office@hdconsultants.net Web: www.hdconsultants.net