Essentially Mortgages

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Quilter Financial Planning

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Welcome to the first edition of Essentially Mortgages from Quilter Financial Planning, the new name for Intrinsic.

Intrinsic was already part of the Quilter group and changed its name to Quilter Financial Planning on 1 July 2019, in order to align more closely with its parent company.

We hope you like the new look!

Is summer the season to sell?

With the summer months now upon us, could this be a good time of year to sell your house?

Conventional wisdom dictates that marketing your property through the summer months can optimise your chances of securing a sale. Once the warmer weather and lighter evenings arrive, people seem more inclined to consider moving home, particularly those with school-age children who would prefer to relocate over the summer holidays.

Indeed, market trend data has historically shown that completions begin to rise quite sharply in April and peak in August. With the average house taking between four and ten weeks to sell, the summer months certainly represent a busy period for house sellers.

Brexit a factor

Uncertainty surrounding Brexit did mean that the housing market got off to a sluggish start in the first few months of this year. However, there was an increase in activity following confirmation that the Brexit date had been delayed until the end of October, with a higher number of homeowners placing their homes on the market.

According to online estate agents Housesimple[1], almost half of major UK towns and cities analysed saw an increase in listings in April. And the latest RICS UK Residential Market Survey[2] showed further signs of improvement in May, which point to a continuing gradual recovery in activity levels during the coming months.

No 'bad' time to sell

While the summer has traditionally been viewed as the optimum time to close a sale, the autumn months can also be a good time to market your property as people rush to complete in time to celebrate Christmas in a new home. Indeed, the rise of the mobile web has made it much easier for people to search for and find their next home at any time of the year.

Ultimately, the best time to put your property on the market will vary according to your individual circumstances, your reasons for seeking a new home and your personal timeframe for moving.

[1]Housesimple, May 2019
[2]RICS, June 2019

The Housing Market – where are we?

A recent survey[3] indicates a more stable picture is emerging in the housing market, with new buyer enquiries remaining steady in May and the negative trend in new instructions, agreed sales and prices diminishing to an extent.

Regionally, there was a slight increase in transactions in the North of England and Wales, although the trend was negative or flat across all other parts of the UK. Future expectations for the next three months remain negative overall but point to a gradual improvement in activity over the next twelve months.

May was the eleventh consecutive month to see sale instructions decline; however, the net balance of -11% is an improvement against the -34% seen in April and is also the least negative since September 2018.

With regard to house prices at national level, there has been a deceleration in the rate of price declines over the past three months and virtually all parts of the UK are expected to see some increase in prices over the year ahead, with the sole exception of London, where projections are flat. The strongest expectation for house price growth over the next year is in the North West, Scotland and the West Midlands.

In the rental market, tenant demand increased modestly for a fifth month in a row. With landlord instructions declining again, which has been the case over most of the last three years, near term rental expectations are now more elevated than at any other point since May 2016, with rents seen rising across all regions.

[3]RICS, June 2019

Time to review your protection needs?

Nothing in life ever stays the same. And it is likely that any change to your personal circumstances will affect your insurance requirements, necessitating a review to ensure you still have the most appropriate products for your new situation.

There are certain life events when it will definitely be worth assessing your level of protection. These include:

Becoming a couple

If you've decided to share your life with someone else, you are also likely to be sharing your wealth. It is therefore important to consider how your partner would cope financially if you were no longer there and ensure that protection is in place for any joint liabilities that you and your partner have.

Buying a house

Buying your first home or upsizing to a larger home often necessitates higher levels of personal debt, so at this stage it may be appropriate to take out or increase your level of protection insurance to cover the full amount that you are borrowing.

Two becomes three... becomes four...

Having children changes both your personal and financial priorities. With each additional child comes extra financial commitments, both now and in the future, and your cover will need to reflect this. As well as protecting your family's standard of living in the event of your death, you may also want to cover expenses such as a child's university education, wedding or even driving lessons.

In addition, at this stage, families often consider other forms of cover, such as accident, sickness and unemployment, critical illness or income protection policies.

A new job

An increase in salary or promotion could mean you can afford to pay higher premiums and increase your level of cover. Conversely, redundancy or a loss of income for some other reason may mean you need to reduce your cover to lower the payments.

Retirement

At this time in life, you may still require cover to protect dependent family members from financial hardship if you die. A protection policy can also help with Inheritance Tax planning, providing a payout on death that will help cover any tax liability on your estate.

Dearth of small homes scuppers downsizing

For many people whose children have flown the nest, it makes perfect sense to move out of the family home to a smaller, easier-to-manage property with lower running costs, releasing equity to fund retirement in the process. However, a chronic lack of smaller homes is negatively impacting on older people's ability to downsize, according to research[4].

The situation

The Responsible Life research found that in 16% of areas surveyed there were twice as many four-bedroom homes as two-bedroom homes. Cambridge and Rugby had just one two-bedroom home for every three four-bedroom homes, although in northern England there were a number of areas where two-bedroom homes actually outnumbered four-bedroom homes.

In a separate study, think tank Demos[5] has estimated that there is a current annual shortfall of around 22,800 new retirement properties in the UK. With an ageing population, this situation is only likely to worsen with the shortfall expected to rise sharply over the next few years, adding further pressure to supply.

The consequences

The lack of smaller homes is having a knock-on effect for buyers looking to move into larger family homes as many older people, frustrated in their downsizing plans, remain in bigger homes that are no longer meeting their needs. And, with demand for two-bedroom houses exceeding supply, prices for retirement properties are likely to remain high, further reducing the appeal and practicality of downsizing by making it a less effective way to release equity.

[4]Responsible Life, 2019
[5]Demos, 2017

Growing popularity of 40-year mortgages

Research by Santander[6] has found half of first-time buyers would consider taking out a 40-year mortgage to get onto the property ladder. And, according to Moneyfacts, over half of all residential mortgages on the market now have a maximum 40-year term, up from just over a third five years ago.

So, why are 40-year mortgages becoming popular?

Lifeline or life sentence?

With housing affordability, a major problem for many, the lower monthly repayments associated with longer-term mortgages is particularly attractive. Santander estimates that 3¼ million more first-time buyers could afford to buy their first home if they took out a 40-year rather than 25-year mortgage.

There are, though, inevitable downsides involved in taking out such a long-term debt. Borrowers can expect to pay significantly more interest over 40 years than they would over 25. Additionally, capital is repaid much more slowly, as those who seek to switch providers after a number of years will discover.

As with all long-term financial products, it pays to get advice to ensure you take out the best product for your particular circumstances.

[6]Santander, May 2019

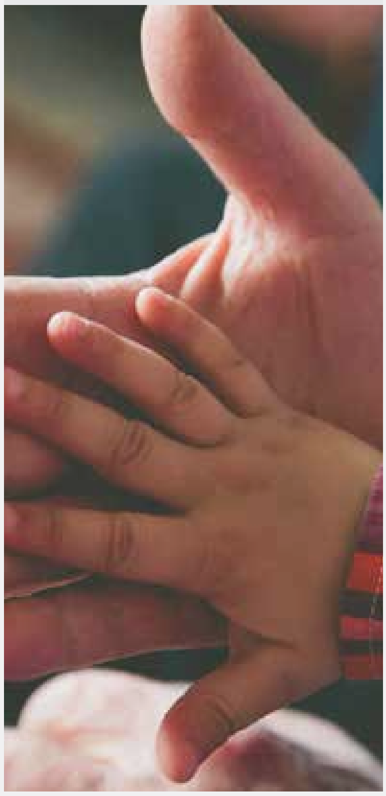
'Protection' rethink required

Can you define what the term 'protection' means? If the answer is 'no', you're certainly not alone. Research[7] has shown that just 9% of consumers associate the term 'protection' with life or critical illness insurance cover. Of those surveyed, a massive 40% thought that 'protection' refers to protection against physical harm or to protective clothing - sou'westers at the ready! Almost 20% had no specific association for the term.

It has been suggested that the industry make an effort to simplify the terminology around protection, intermediary director at Legal and General, Craig Brown, commented: *"Consumers are still largely unaware about what 'protection' really means, and importantly what a huge impact it can have for those who need it. Critical illness cover is viewed by many as a complicated product and in order to give consumers the clarity and comparability they need to choose the option best for them, we need to simplify language."*

If you need any help deciphering the terminology around protection products, please get in touch.

[7]L&G, March 2019



When will you be mortgage free? How to work towards this goal

Paying off a mortgage as early as possible is a common ambition among homeowners and is a major step on the way to a financially secure retirement.

Setting goals and keeping a note of where your money goes each month are important in helping to set a budget and allow you to consider whether specific purchases are important or just something you would like to have.

Making regular overpayments or paying a lump sum off your mortgage is an option if you have funds available. However, if you have other more expensive debts you should consider paying those off first. With flexible mortgages, it's possible to make overpayments, but even on a standard mortgage most lenders will allow you to overpay, usually up to 10% of your mortgage balance each year.

If you have savings you could opt for an offset mortgage, which allows you to balance your savings against the amount you owe on your mortgage. This reduces the amount of interest you pay and could allow you to pay more off the mortgage balance.

Finally, reviewing your mortgage regularly will ensure you are on the best deal. We're here to help.

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Five-year fixed rate – a popular choice

It seems that the security of a longer term, fixed rate mortgage is increasingly appealing to people. The numbers bear this out, as the latest figures show that almost half of us opt for a fixed product of five years or more, up from 25% in 2013.

Almost doubling in popularity over six years, 90% of mortgage intermediaries attribute the trend towards longer term fixed rate products to the low interest rate environment. Coupled with concern over future rate rises, it is the key factor driving popularity of the five-year fix[8]. The desire for cost certainty is also a key factor influencing customer behaviour.

[8]Paragon, April 2019

Shop around for self-storage insurance

Although the past couple of decades have witnessed a surge in demand for self-storage facilities, many people who use them still fail to shop around when taking out the required insurance cover.

During an average lifetime, people accumulate a substantial quantity of personal possessions and self-storage units have become a popular way of housing some of these belongings. The service is particularly useful when people are between house moves or getting renovation work completed on their property but can also help when there simply isn't sufficient space at someone's home for all of their belongings.

Arranging appropriate cover

Anyone putting items into self-storage will generally be required to take out insurance to protect their possessions. Self-storage companies will typically offer prospective customers their own storage insurance and, in many cases, it will be compulsory to have satisfactory cover in place before the storage unit can even be rented.

However, you are not bound to take out the insurance offered by the self-storage facility and it's often much more cost-effective to arrange the cover separately. Indeed, concerns have previously been raised about the competitiveness of self-storage firms' policies with research suggesting customers who buy insurance through the facility pay substantially more than equivalent policies they could get elsewhere.

Therefore, if you are considering using self-storage units in the near future, or you currently have possessions in storage, don't forget to contact an independent insurance broker to ensure you arrange the most appropriate level of cover at the best price.

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Planning an extension?

Good news for homeowners in England wishing to extend their home, rather than face the expense and upheaval of moving to a larger property. Temporary rules, introduced in 2013, allowing larger single-storey rear extensions to be built without the need for a full planning application, are now being made permanent.

Under the rules, homeowners can add a single-storey rear extension of up to six metres for semi-detached or terraced homes, or eight metres for detached homes.

Over 100,000 people have taken advantage of the temporary rules since 2013, which doubled the previous limits on extensions not requiring planning permission.

Instead of waiting for approval, the homeowner has to inform their local council of the building work due to be undertaken. The council officials will inform the neighbours, who can raise objections if they so wish. Where concerns are raised, the council may block the extension plans, if they decide it is likely to negatively impact the character or enjoyment of the area.

Kit Malthouse, the Housing Minister, commented: *"These measures will help families extend their properties without battling through time-consuming red tape. By making this permitted development right permanent, it will mean families can grow without being forced to move."*

In Northern Ireland, Wales and Scotland, rear extensions in excess of three or four metres, depending where you reside, will continue to require a full planning application.

Protection – ASU explained

Accident, sickness and unemployment (ASU) cover should not be confused with traditional payment protection insurance (PPI) policies, which only cover one financial commitment, such as a mortgage or loan repayment.

ASU can also be called short-term income protection insurance (STIP) or mortgage payment protection insurance (MPPI). With STIP, the benefit is defined as a percentage of an individual's income, up to a maximum of typically 65% of gross income. With MPPI, the level of cover is defined by the amount of your mortgage payments, plus an additional amount to cover mortgage-related outgoings such as buildings and contents insurance premiums.

The three main types of cover available are accident, sickness and unemployment, accident and sickness only and standalone unemployment only. A standalone unemployment policy pays out in the event of forced redundancy, not just if you leave your job, and is payable for a maximum of one year.

Full ASU will normally cover accidents, short and/or long-term illnesses, redundancy and involuntary unemployment, but exclude pre-existing conditions, most back and stress-related conditions, misconduct or voluntary redundancy.

How it works

The cover is short-term, typically lasting for 12 months and renewable annually. However, there are some policies on the market that can be set up for terms as short as six months, or for as long as 24 months.

Typically, there is an excess period of 30 days before any benefit becomes payable and, to reduce monthly premium costs, longer excess periods such as 60 or 90 days can be selected. For a higher premium, most plans will also allow back-to-day-one cover, whereby the benefit payment is backdated to the start of the excess period once the 30, 60 or 90 days have elapsed and a valid claim is established.

Please get in touch if you would like any advice on the most suitable protection for you.