Mortgage News

Fulwood Wealth Management

Thank you for reading our newsletter, if you would like to discuss any of the articles further, please do not hesitate to contact us

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Borrowing options in your later years

Retirement is an exciting time; the start of a new chapter in life. Whilst we will have worked, saved and prepared for this moment for a long time, many of us will find we don't quite have enough money to fund all the things we planned to do.

Luckily, there are an increasing number of options for borrowing in your later years, enabling people to stay in their homes for longer and help fund their retirement lifestyle.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP YOUR REPAYMENTS ON YOUR MORTGAGE.

Mortgage

One option is a traditional residential 'capital and repayment' or 'interest-only' mortgage. Many lenders have increased their upper age cap limits in recent years, enabling mortgages to now be applied for by people up to 80 years old and allowing mortgage terms that end when a customer is up to 85 years old.

You'll have a better chance of being accepted for these mortgages if you have a good credit history. Your income will need to be high enough to easily cover the mortgage payments, so lenders will be looking for proof of pension income. This is easier to do once you are retired.However, if you are yet to retire, your pension provider can give confirmation of your expected retirement date, current pension pot and expected retirement income. The mortgage provider will also be interested in other income you may have, such as from shares and property investments.

Equity Release

Another option is equity release. With an Equity Release Mortgage, you borrow an amount against a part-share of your home, either as a one-off lump sum or a monthly income.

You still own your home, and the payment can be used for a variety of purposes. These are, most commonly, to pay off an outstanding mortgage, pay for a major purchase or unexpected cost, or simply to help fund your retirement.

Lifetime Mortgage

A Lifetime Mortgage differs to a traditional Residential Mortgage as payments do not need to be made throughout the term of the mortgage. Instead, the total amount borrowed plus the interest is repaid when the house is sold, which is usually after the borrowers have moved into a care home or passed away.

Both Equity Release and Lifetime Mortgages will impact elements such as how much inheritance you have available to pass on, eligibility for state benefits and your tax position.

Each of these borrowing options suits different circumstances so you must carefully consider which would be best for you in your later years.

You will need to take legal advice before releasing equity from your home as Lifetime Mortgages and Home Reversion plans are not right for everyone. This is a referral service.

Price cap for properties eligible for Help to Buy Equity Loan Scheme from April 2021 to March 2023:

More hope for first time buyers with the Help to Buy Extension

Since it was launched in 2013, the popular Help to Buy scheme has enabled almost 170,000 households to buy homes; who may not otherwise have been able to.

An extension to the successful scheme was announced in the Autumn 2018 budget, now making it available until 2023 for first time buyers only 'to ensure future support is targeted at those who need most help'.

This could benefit tens of thousands of extra buyers who are purchasing a new-build property, who under the scheme can get an extra 20% (40% in London) government loan, which is interest free for five years. If they also secure a mortgage from a bank or building society for 75% (55% in London), this means buyers themselves need to only find a 5% deposit.

As part of the changes, the government has also introduced new caps on house prices for qualifying properties in different regions, to reflect the huge variations in prices across the country. London will continue with a £600,000 cap, whereas the caps in other regions have been changed to 1.5 times the average forecast first time buyer price in an area.

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‘Mortgage prisoners’ may be able to remortgage

You may have heard the term ‘mortgage prisoners’ but not know exactly what it is. Mortgage prisoners are those who are trapped in their current mortgage deal and are unable to remortgage or move.

How did Karen and Richard become mortgage prisoners?

"Unfortunately my work circumstances changed last year, meaning Karen and I can't pass the affordability check. If we were able to switch we could save a lot of money by having a lower interest rate."

The Financial Conduct Authority (FCA) has estimated around 150,000 borrowers are stuck as ‘mortgage prisoners’. Some of the main reasons are —

— **A change in circumstances, such as credit issues or a lower income since they bought their home.**

— **Not meeting the affordability rules which changed in the 2014 Mortgage Market Review**

— **Negative equity – which could be due to the 2007/08 financial crisis**

Being stuck on your current mortgage deal can be a costly frustration. Those that come to the end of their existing deal may be moved onto a lender’s Standard Variable Rate which can be expensive, with average rates higher than many available deals. In some cases, this could be more than double the rate of interest.

There may be hope on the horizon...

After a campaign by a group of ‘mortgage prisoners’, who originally mobilised via social media, the FCA has proposed plans to help people move to a cheaper deal.

Customers who are both up-to-date with payments and looking to remortgage without additional borrowing will be given a more appropriate affordability assessment to assert whether they can afford the new loan. This will make it easier to find the right mortgage for their needs. The FCA is also asking lenders to work with more innovative tools to help customers better identify what mortgages they may qualify for.

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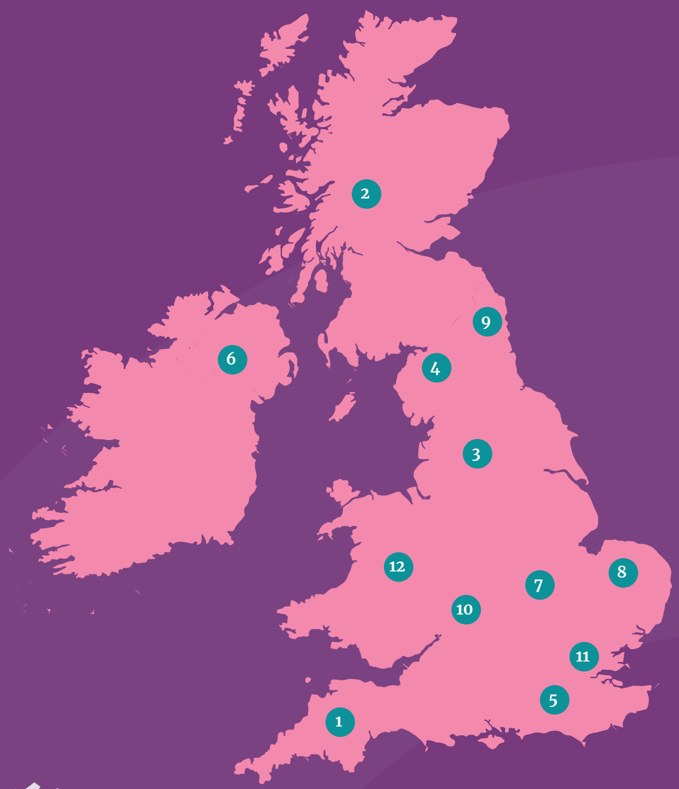
Where is the happiest place to live?



Regions in order of happiness

1 South West
2 Scotland
3 Yorkshire
4 North West
5 South East
6 Northern Ireland
7 East Midlands
8 East of England
9 North East
10 West Midlands
11 London
12 Wales

A new survey has revealed the South West is the happiest place to live in the UK, with Wales coming in as the least happiest.

The survey by Lloyds Bank and YouGov looked at factors such as: home ownership, salary, household size, knowing your neighbours, loneliness, crime rates, local services and unemployment to create a 'happiness barometer'.

The survey threw up some other interesting facts:

— **Overall women are happier than men, but happiness for both dips to its lowest level for those aged between 25 and 34.**

— **People who own their own homes are happier than those who still have a mortgage to pay.**

— **Unsurprisingly, homeowners are happier than renters. Those who rent local authority homes are the least happy of all renters.**

— **Higher earnings can make you happier, but this peaks for those earning between £50,000 and £59,999. These earners were the happiest overall, and 12% happier than those earning over £100,000.**

Overall, access to transport links and amenities, living close to family and friends, having a safe and clean neighbourhood and a sense of community makes people happier. Converseley, high levels of crime and anti-social behaviour, poor local services, transport and amenities and a feeling of loneliness make people less happy.

Coming to the end of your interest-free equity loan period

The government launched its Help to Buy equity loan in April 2013 and since then 210,964 properties have been bought under the scheme.

First-time buyers and people moving to a new-build home worth up to £600,000 have benefited from the scheme, which provides an equity loan of up to 20% of the cost of the property interest free for the first five years. But what happens when you come to the end of the interest-free period?

Continue paying
If you haven't paid your equity loan off by the end of the five-years, you'll be charged 1.75% interest on the outstanding loan amount and this will increase by the Retail Prices Index (RPI) plus 1% each year.

Sell the property
If you choose to sell your home, you'll need to repay the equity loan in full. If the value of your property has stayed the same and your loan was 20% then your repayment will be 20% of the value of your home.

If the value of your home has increased or decreased the amount you pay will change by the same percentage. So, if your home is now worth 5% more than when you originally bought it you'll owe an extra 5% of original loan value.

Remortgage and keep the loan
If you want to remortgage and keep your equity loan, the new mortgage must not exceed the current mortgage and cannot be longer than the entire term of the existing mortgage. For example, if you remortgage five years after taking a 25 year Help to Buy equity loan, your current mortgage must not be longer than 20 years. You will of course have to start paying interest on your equity loan.

Remortgage and pay the loan
If you choose to increase your borrowing to remortgage to pay the equity loan off in full you'll need to be aware of any changes in the size of your equity loan just as if you were selling.

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

If your original equity loan value was £20,000 – below is indicative values of the amount owing when you come to sell

House value decreased 5%
£19,000

House value the same
£20,000

House value increased 10%
£22,000

There are a number of options when it comes to the end of your five-year equity loan period. Contact us and we can discuss the right option for you.

Considerations for first-time buyers

Being a first-time buyer can be daunting. Not only are you about to make one of the biggest financial decisions in your life, but you'll probably also have family members and friends offering their ideas on the right house, mortgage, lender conveyancer and even removal company for you.

We've put together some ideas to try and take away some of the stress and confusion and give you confidence to move through the home buying process as smoothly as possible.

Get the right advice
Of course we're going to say that - it's what we do! We'll review your circumstances and look at your income, debt, day-to-day outgoings, employment and the size of your deposit, to assess what you can afford to borrow now and in the future. We'll talk you through the types of mortgage we think are right for you and the lenders who offer them.

Save as much as possible
Buying a house is going to be expensive so it's important to save, save, save and save some more to get yourself in the best position possible.

Many lenders will accept a minimum deposit of 5% of the cost of the house you're buying, but aim higher. The bigger your deposit the smaller the mortgage (and monthly mortgage payments) making you more attractive to a lender.

Talk to us and we can help with practical financial advice on your first and future home purchases.

Know your budget
Your hard-saved deposit and monthly mortgage repayments aren't the only expenses you need to be mindful of when buying your first home:

Some lenders will charge for a **valuation fee** to help them establish how much they are prepared to lend you.

You'll also need to factor in the cost of a **survey** (depending on the type of property you're buying and the lender you choose to go with you might need a basic mortgage valuation, a homebuyer's report or a full structural survey).

In Scotland you also need to budget for **Land and Buildings Transaction Tax** and in Wales you'll need to budget for **Land Transaction Tax**. If you live in England or Northern Ireland, you won't pay any **Stamp Duty Land Tax** on properties worth up to £300,000.

You'll also need to pay your **solicitor** or **conveyancer** for any legal work and local searches they do on your behalf.

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