Finhawk Mortgages Ltd

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FINHAWK MORTGAGES LTD

Thanks for reading our newsletter. If you want to discuss any of the articles in more detail, please get in touch.

40 Apostle Way, Bishopdown, SalisburySP1 3GS
dbeach@finhawkmortgages.co.uk | finhawkmortgages.co.uk | 01722 322911

Unlocking the value in your home

The number of people using equity release schemes fell last year as older homeowners grew more cautious.

Older homeowners seemed to be more reluctant to release cash from their homes in 2020, according to the Equity Release Council. Data from the trade body shows drawdowns from lifetime mortgages fell by 21% last year and 10% fewer plans were agreed than in 2019.

This drop suggests the coronavirus pandemic affected the equity release market in 2020, with activity slipping to a four-year low between April and June. Yet the end of the year was a different story – a backlog of cases meant it was unusually busy, with 11,566 new equity release plans agreed between October and December.

What is equity release?

Equity release enables homeowners who are aged 55 and over to access some of the money tied up in their homes. You can take the money as a lump sum or in several smaller amounts. Many people choose this option to supplement their retirement income, make home improvements or help children or grandchildren get onto the property ladder.

The most common way to release equity from your home is through a lifetime mortgage, which allows you to take out a loan secured on your property, provided it's your main residence. You can ring-fence some of the property value as inheritance for your family and you can choose to make repayments or let the interest roll up. The mortgage amount, including any interest, is paid back when you die or move into long-term care.

Alternatively, you can take out a home reversion plan, which enables you to sell all or part of your home for a lump sum or regular payments. You can continue living there rent-free until you die, but you'll have to pay to maintain and insure it. You can ring-fence some of the property for later use. At the end of the plan, the property is sold and the proceeds are shared according to the remaining proportions of ownership.

Is equity release falling out of favour?

In 2020, £3.89 billion of equity was released from property, compared with £3.92 billion in 2019 and £3.94 billion in 2018, according to the Equity Release Council (5). These figures suggest people are biding their time before unlocking wealth from their homes, according to David Burrowes, the trade body's chairman (6).

Yet interest rates for lifetime mortgages are now falling, which could encourage people to take the next step. The average equity release interest rate fell to around 4% during the last three months of 2020, with the lowest rates now at around 2.3% (7). This rate is less than many of those available on 10-year fixed-rate mortgages, but higher than a lot of products with shorter fixed periods (8).

Is equity release right for you?

Deciding to release funds from your home isn't a decision to take lightly. While equity release means you have money to spend now instead of leaving it tied up in your property, it can be a complicated process. Remember that equity release often doesn't pay you the full market value for your home and it will also reduce the amount of inheritance your loved ones could receive. It's important to talk to a financial adviser who can help you decide whether the process is appropriate for you.

A Lifetime mortgage is a loan secured against your home. A Lifetime mortgage may affect your entitlement to state benefits, and it will reduce the value of your estate.

Turning ‘generation rent’ into ‘generation buy’

New 95% mortgage scheme to help first-time buyers

Lenders are now offering a government-backed 95% mortgage scheme to help more first-time buyers onto the property ladder.

The government is hoping to turn ‘generation rent’ into ‘generation buy’ with the help of a 5% mortgage deposit scheme launched on 19 April.

Following the outbreak of the coronavirus pandemic, many lenders withdrew low-deposit mortgages. In just under a year, the number of 95% mortgages available to first-time buyers fell from 391 to just three. It’s hoped the scheme will give lenders the confidence to offer low-deposit mortgages again by taking on some of the risks involved.

What is the 5% deposit scheme?

First announced in this year’s Budget, the programme offers first-time buyers or current homeowners the chance to secure a 95% loan-to-value mortgage on homes worth up to £600,000. It’s available on both new-build and existing properties.

The government hopes the scheme will provide an affordable route to home ownership by helping people who may be renting but are unable to save for a deposit.

Buyers will still only be able to borrow in proportion to their income, typically a multiple of 4.5. As a result, the scheme will particularly benefit buyers in lower-value housing markets such as northern England and Scotland.

What does loan to value mean?

Loan to value is the percentage of the property value you’re loaned as a mortgage – in other words, the proportion you're borrowing. For example, if you have a 95% mortgage on a house worth £200,000, you would put down £10,000 (5%) of your own money as a deposit and borrow the rest (£190,000).

What’s the catch?

There are a few conditions that you’ll have to meet under the scheme. You’ll need to:

— Buy a property to live in – second homes and buy-to-let properties aren’t eligible.

— Apply for a repayment (not interest-only) mortgage

— Pass standard affordability checks, including a loan-to-income test and credit score assessment.

It’s worth considering the fact that the higher proportion of the property price you borrow, the higher the amount of interest you’ll repay on your mortgage. So it might be good to take a step back and figure out if you can save for a little longer and borrow less.

Speak to your financial adviser about how the 5% mortgage deposit scheme could help you get on the property ladder.

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

OW3372 Exp. 24/11/21

Buy to let as a private company

April 2020 marked the final stage of phased changes to Income Tax relief rules for landlords. Up until the 2016/17 tax year, landlords were able to deduct all mortgage interest payments and other allowable costs from their rental income before being taxed on the rest (tax paid depends on the landlord's Income Tax band).

Now, though, landlords are only entitled to a basic rate 20% tax credit on mortgage interest payments.

20%

Wait, so what's the difference?

Under the old system, a landlord might have made £12,000 in annual rental income but have paid £8,000 in mortgage interest. Now, let's say they were subject to the additional Income Tax rate of 40%. They would be looking at paying 40% of £4,000 – tax bill of £1,600.

Since April 2020, a landlord earning the same rental income and paying the same mortgage interest now faces paying 40% tax on the full £12,000 – i.e. £4,800 – and then deducting the 20% tax credit on their mortgage interest payments – i.e. £1,600 – leaving them with a higher tax bill of £3,200, double what they would have paid previously.

What about operating via a private limited company?

Well, that's what a lot of people have been talking about doing since the tax relief changes were announced. The new system only affects private landlords, which is why so many aspiring property investors are considering this option. If you set up and buy through a company, you'll be subject to Corporation Tax on your profits at a rate of 19%.

It's not for everyone

There are some downsides to operating in this way. For example, if you're trading as a company, you'll have to complete a Company Tax Return and file accounts with Companies House each year, which can be stressful to do yourself, and expensive if you hire an accountant. It can also be more difficult (and costly) to access your profits – for example, should you choose to pay it to yourself in dividends, you'll face additional tax on anything over the £2,000 dividend allowance.

Some buy to let mortgages are not regulated by the Financial Conduct Authority

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

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

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

Protect your peace of mind when moving home

Moving home can be a hectic and exciting time, but don't forget about protection – taking out the appropriate policies can save you a lot of stress in the long term.

If you've just moved home or are about to, it probably feels like you've been caught up in a bit of a whirlwind over the past few months. With searching for a property during a pandemic, making the move before the stamp duty holiday ends and potentially getting caught up in the resulting conveyancing backlog, protection policies are probably not top of your priority list.

Yet it's important to take the necessary precautions to ensure your new home and possessions are looked after – now more than ever. Here are some of the main types of protection you should be thinking about.

Mortgage protection

If you're unable to work due to illness or injury or because you've lost your job, mortgage payment protection will cover the cost of your mortgage each month. These policies usually last for a year or until you return to work – whichever is soonest.

You can pick how much you want your policy to pay out each month, and this can include a buffer for other expenses, such as bills. It's important to bear in mind though that providers usually set monthly limits of between £1,500 and £2,000. You won't always be able to claim straight away, and there's usually a waiting period of one or two months. The cost of mortgage protection will depend on:

- your salary;
- the size of your mortgage repayments;
- the type of policy you choose; and
- how soon you want to be covered.

Income protection

Income protection provides you with a regular income if you've lost your job or are unable to work due to illness or injury. There's usually a minimum wait of four weeks before you can start receiving payments. There are different types available:

- A short-term plan covers you for involuntary redundancy, but is usually limited to a set time period.
- A long-term plan will usually cover you until you return to work, retire, die, or the policy ends – whichever is soonest.

Buildings insurance

If you've got a mortgage, you're likely to have buildings insurance to cover the cost of repairing damage or rebuilding the structure of your home if it's damaged. But have you looked carefully through the policy and made sure that it definitely covers everything you need it to? Once you've moved, you may realise that your new home has a slightly more complex structure than you first realised, and it's important to make sure your buildings insurance takes this into account. If you're lucky enough to not have a mortgage, it's still a sensible idea to invest in this type of insurance for peace of mind.

Contents insurance

If you've bought new furniture and gadgets for your home, you might need to review your contents insurance. This type of insurance covers the cost of replacing possessions in your home if they're stolen, destroyed or damaged. It's a good idea to double check which of your items are covered so that you're not caught out if something does go wrong.

Act now

When you're caught up in the excitement of moving, thinking about protection might be the last thing on your mind. But remember that your circumstances can change quickly and it's important to make sure you're prepared now in case things don't go to plan in the future. For more information about protection and to talk about whether your current policies are right for your situation, speak to your financial adviser today.

OW3261 Exp. 19/04/2022

Is it time to check your contents insurance?

We shopped online more than normal during lockdown, but does your contents insurance cover these new purchases? You might be surprised to find out how much it would cost to replace your possessions if they were damaged or stolen.

During the lockdown, we have worked from home, and we've also shopped from home. Apart from the day-to-day essentials, we are buying gadgets, appliances, clothes and equipment for the kitchen to the home office, and even makeshift home gyms.

These items can add up, so are they covered by your home contents insurance? You might need to review the level of cover in your policy in case anything is damaged or stolen and needs replacing.

What is contents insurance?

Contents insurance covers the cost of replacing possessions in your home – up to a certain amount – if they are stolen, destroyed or damaged.

When you're insuring your home, you'll select the level of contents cover. Some policies allow you to specify high-value items in your home (like jewellery or smart TVs) that normally wouldn't fall under the general contents category because they're worth more than £1,000, for example.

It's a good idea to check your coverage so you're not caught out if something does go wrong. If you take each room at a time and estimate the value of items (making a note of the high-value ones), you'll have a better idea of what your total contents cover should be.

Examples of possessions you could include are:

— Furniture
— TVs
— Laptops and computers
— Games consoles
— Hi-fi equipment
— Home exercise equipment
— Jewellery
— Expensive clothing and accessories
— Kitchen appliances

Don't forget your outdoor space

For those with gardens, the lockdown saw extra spending on tools, garden furniture, fire pits and barbeques. People also took to converting sheds into home offices.

Tally up your outdoor items and include them in your content value. And remember to lock tools and equipment away when not in use, or you risk invalidating a claim if something is stolen from your garden.

Keep receipts and read the small print

Online shopping makes it easier to store receipts in case you do need to make a claim. It's also worth registering new electronics and appliances for free warranties that often come with them. Along with these steps, find out if you are covered if you transport any items outside of your home (like a laptop, for example).

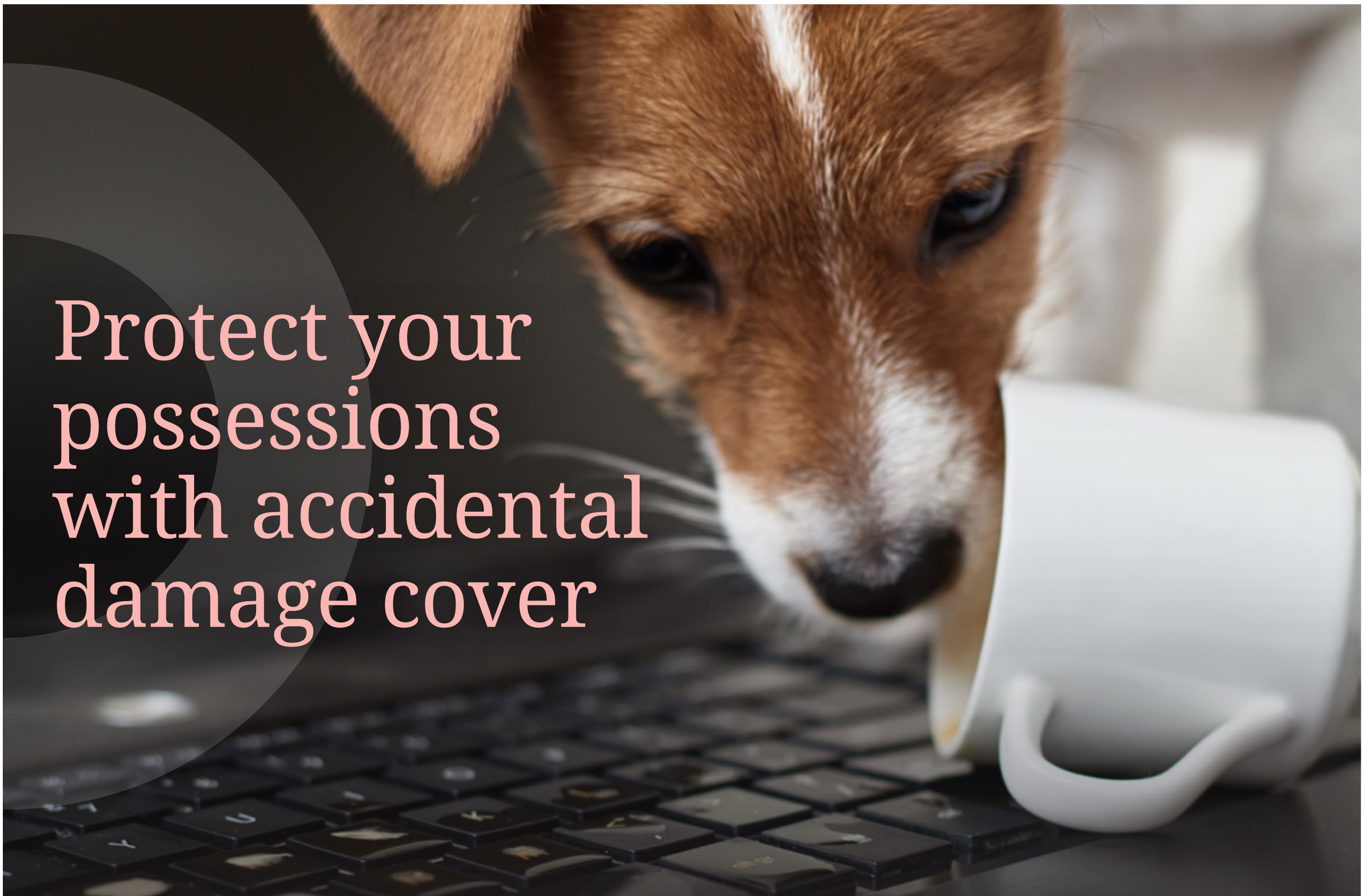
Post-lockdown travel insurance

Many of us are looking forward to travelling again and a lot of bookings have already been made. Travel insurance – even if you're travelling within the UK – is important, so it's a good idea to purchase a policy separate to one you might have with your bank. Look for coverage specific to Covid-19 to make sure you're protected if anything changes.

Your financial adviser can help you navigate the small print in your insurance policy and help you find the best contents cover to protect your belongings.

Now is a good time to review your insurance policies and make sure it covers everything you own. Our expert advisers can help you review your coverage or help you find a new policy that works best for you and your family.

OW3316 Exp. 02/08/2021



Protect your possessions with accidental damage cover

Insurance claims for accidental damage increased over the past year as more people worked from home, so it's a good time to check your own coverage.

Figures from some of the country's biggest insurance providers have shown a sharp rise in claims of accidental damage during the lockdown.

With many millions now working from home, the chances of accidents and damage to property have inevitably gone up. Halifax Home Insurance reported a rise of 35% for claims between July and September 2020 compared with the same period in 2019.

Types of accidents included damage to computers and other electrical items, broken windows and water leaks. With holidays cancelled, children home schooling and everyone staying in, appliances were used a lot more than normal, along with central heating systems.

Millions paid out in home insurance claims

One Insurance provider paid out £33 million in home insurance claims in 2020, with 15% going towards accidental damage claims. General claims not related to accidents accounted for 25% and were mostly related to appliance and pipework damage.

The biggest rise in claims related to damage to computers and electrical equipment because of spillages. As working from home turned many of us into amateur office managers, the usual health and safety measures within a normal office environment were not easy to replicate – especially with children and pets in the picture.

Admiral reported its accidental damage claims increased by 28% since the lockdown started in March 2020, compared to the previous year. Damaged laptop claims increased by 31% and claims around damage caused by home renovation also rose.

Check your accidental damage coverage

It's a good time to see what your home insurance policy includes when it comes to covering accidental damage to your property.

1. Check that you have the accidental damage cover in place, because it's often offered as an optional extra to your home insurance.
2. Check the limits and exclusions on your accidental damage cover, making sure there is enough to cover any new gadgets or equipment you bought during lockdown.
3. If you have made renovations and upgrades to your home during lockdown, try to calculate the extra value they bring to your home to ensure your home policy covers it.

How to avoid accidental damage in your home

Sometimes, accidents just happen. But there are ways to reduce the likelihood of an accident, like keeping drinks in a closed cup, away from computers, or tidying cables to avoid tripping.

With many homeowners installing wooden flooring, it's worth keeping rugs secure with non-slip backing, and encouraging children to be aware of risks in the home when they are playing.

And it's always a good idea to have your insurers' telephone number and the policy details handy for when you need them.

Along with helping you check the small print in your accidental damage policy, your financial adviser is here to help you find insurance plans that work best for you and your family, to make sure you're best protected.

OW3315 Exp. 29/04/22

Examples of health conditions or circumstances that could affect life insurance applications include:

— cancer

— type 1/type 2 diabetes

— HIV

— multiple sclerosis

— a suicide attempt

— a hazardous job or hobbies

It's important to be honest and upfront about everything in your application, as anything you miss out could invalidate your policy. The cost of your policy will depend on your risk factors.

What is impaired life insurance?

If you're not eligible for standard life insurance, it's important to find a policy that will cover your circumstances. Find out more about impaired life insurance.

Finding the right insurance policy can be a challenge if you have a serious medical condition or you have a job or hobbies that are seen as risky. The process can be stressful and confusing, so it's really important to make sure you seek professional advice to make sure you have appropriate cover.

What is impaired life insurance?

If you're seen as high risk due to your health conditions or lifestyle, you may not qualify for standard life insurance and will instead be eligible for something called 'impaired' cover. The rates and terms of impaired life insurance will vary depending on your risk factors, but you'll probably have to pay slightly higher premiums.

Some exclusions may also apply to your policy – meaning you won't be able to make a claim for anything related to your high-risk status, such as your medical condition, job or hobbies.

Thankfully, the life insurance market has evolved a lot over recent years, and there are now many specialist insurers that cater to people who are considered high risk. In addition, major names are generally accepting more higher-risk candidates.

How much cover will you need?

The amount of cover you need depends on your personal circumstances, but you'll generally need to think about the following:

— the amount left to pay on your mortgage

— any outstanding debt (for example, loans and credit cards)

— people who depend on your income

— spouse or partner

— annual income (after tax)

— any financial assets (for example, car, house and business)

If you have a serious medical condition or a high-risk hobby or job, get in touch with your financial adviser to arrange coverage – and make sure you and your family are fully protected if anything happens.