

INSIGHT BRIEFS - DECEMBER 2021

FINHAWK MORTGAGES LTD

Please enjoy reading our newsletter. If you would like to discuss any of the articles further, please do not hesitate to contact us.



Jargon and lingo – talking about mortgages

From agreement in principle and loan-to-value to freehold and leasehold, we've compiled a list of terms you're likely to come across when buying a property and what they actually mean.

Buying a property can be a complicated process, and even more confusing when you're confronted with various terms you've not come across before. To help you make sense of it all, we've listed some key definitions you'll need to know.

This list should give you a good head start when it comes to understanding the jargon around mortgages. To help you take the stress out of buying a property, speak to a financial adviser about how they can help you find the most suitable mortgage and guide you through the process.

Agreement in principle	A document from a mortgage lender with an estimate of how much money you may be able to borrow. You can use this to prove to a seller that you can afford to buy their property.
Annual percentage rate (APR)	The overall cost of a mortgage, including the interest and fees. It assumes you have the mortgage for the whole term.
Arrangement fee	A set-up fee for your mortgage.
Base rate	The interest rate the Bank of England charges other banks and lenders when they borrow money.
Buildings insurance	Covers you for damage to the structure of your home – you'll need to have a policy in place when you take out a mortgage.
Capital	The amount of money you borrow to buy a property.
Conveyancing	The legal process you go through when you buy or sell a property done by a licensed conveyancer or solicitor.
Deposit	The amount you need to put down in cash towards the cost of a property.
Equity	The amount of the property that you own outright – your deposit as well as the capital you've paid off on your mortgage.
Fixed-rate mortgage	The interest rate on the mortgage stays the same for the initial period of the deal. Your rate won't change with the Bank of England base rate during this time.
Flexible mortgage	Allows you to underpay, overpay or take a payment holiday from your mortgage – they are usually more expensive than conventional mortgages.
Freehold	You own the building and the land it stands on.
Gazumping	When an offer has been accepted on a property but a different buyer makes a higher offer, which the seller accepts.
Guarantor	A third party who agrees to meet the monthly mortgage repayments if you can't.
Help-to-Buy	The government has introduced various Help to Buy schemes to make buying a home easier, including equity loans, mortgage guarantees, ISAs and specific schemes for Scotland and Wales.
Interest-only mortgage	You only pay the interest on your mortgage each month without repaying the capital.
Joint mortgage	A mortgage taken out by two or more people.
Land Registry	The official body responsible for maintaining details of property ownership.
Leasehold	You own the building but not the land it stands on, and only for a set period.
Loan-to-value	The size of your mortgage as a percentage of the property value.
Porting	Allows you to transfer your borrowing from one property to another if you move, without paying arrangement fees.
Repayment mortgage	You pay off interest and part of your capital each month.
Stamp duty	You'll need to pay stamp duty land tax when you buy a property over a certain price.
Standard variable rate (SVR)	The default interest rate your lender will charge after your initial mortgage period ends.
Tracker mortgage	The interest rate on your mortgage tracks the Bank of England base rate at a set margin above or below it.
Valuation survey	Lenders will carry one of these out to check whether the property is worth around the amount you're paying for it.

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

Get the best out of your BTL mortgage

Many fixed mortgage deals will be approaching the end of their term this October, so it's a good idea to review your buy-to-let mortgage.

With interest rates still at low levels and demand for rental properties increasing around the country, investing in a buy-to-let (BTL) is a popular choice for many.

Buy to let basics

A BTL mortgage is a specific type of product for those who want to buy a property with the intention of renting it. Because of this, there are different terms and rules around a BTL mortgage (compared to a regular mortgage for a property the buyer intends to live in.)

- With a BTL mortgage, the anticipated rental income is taken into account when the lender calculates how much you can borrow.
- A BTL mortgage could suit investors with enough equity to put down a deposit of at least 20% of the value of the property (but some lenders could require up to 40%).
- Your credit record is closely scrutinised with a BTL mortgage, as with a regular mortgage application.

Interest rates for BTL mortgages are usually higher than a regular mortgage.

Things to remember

If you have a BTL mortgage already and its fixed interest rate term is coming to an end, you may be thinking about switching products or providers to gain a better deal. Here are some other things to look out for:

- Examine all of your options into the type of product to suit your investment going forward. A financial adviser is best placed to help you with this.
- Don't forget to research any fees and charges around changing your product too, as these could be higher than you expect.
- When changing products, you may be asked about your property's rental income history in order to assure any new lenders that you are able to keep up with mortgage payments.
- Show that you have sufficient savings to cover any gaps in rental periods when your property could be unoccupied.
- For your own peace of mind, having a cushion of savings available to cover any essential repairs is important.

If you are looking to remortgage your BTL property or are thinking about transferring your mortgage to a different provider, our advisers can help you find a product that best suits you.

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



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

Specialist mortgages and your holiday let

If you're in the market for a holiday let and need a specialist mortgage, what should you be aware of?

When might you need a specialist mortgage? The clue is in the name – if your situation is different from the normal criteria of a traditional mortgage, then a specialist product could be the answer. This especially applies to people in the market for a holiday let.

When do you need a specialist mortgage?

A specialist mortgage could apply if you're buying a high value home or already have a home and want a second charge mortgage in order to carry out renovations. They could also suit those who are self-employed, looking for a holiday or buy-to-let (BTL) property or people who do not meet the standard criteria for a mortgage. Whatever the reason, seek financial advice from an expert in the specialist mortgage field to find the best deal for your situation.

Holiday lets

When it comes to a mortgage for a property you intend to use as a holiday let, your regular income is considered in terms of the loan value, regardless of the amount you estimate might come in from the eventual rental. This is to ensure you can afford the mortgage payments during times when rents are not coming in, or when you are using the property. Although staying there yourself is one of the advantages of a holiday let, you can't live there on a permanent basis as it would affect the terms of the mortgage.

Some specialist mortgage products for holiday lets offer a maximum loan-to-value (LTV) of a certain amount for the mortgage. So, if your holiday let costs £200,000, and the LTV from the specialist product is 70%, then you will be able to get a loan of £140,000 from your lender and your deposit would need to be £60,000.

Lenders have their own criteria, which could include the following:

- Applicants need to be over the age of 21 and in stable employment.
- Your main income should not come from another rental or investment.
- Borrowers will need to prove their income exceeds a certain amount annually.
- A minimum deposit (usually around 25% of the property value).
- Rental projection from a holiday letting agent may be required, covering off-peak seasonal periods and high-demand times of year.
- The rental property itself must meet certain criteria (for example, being located within the UK and functioning as a single-family dwelling).

Holiday let vs buy-to-let

You might think that there is little difference between a holiday let mortgage and a buy-to-let mortgage (BTL), but there are a few. A BTL mortgage will contain different conditions and requirements, such as the need for an assured shorthold tenancy being in place (AST).

Using a BTL property as a holiday letting – without informing your lender – is a breach of the agreement and could undermine your mortgage contract and credit rating. The main difference between the two types of mortgages is how the loan size is calculated, and the estimates of rent the properties will receive. A holiday let will tend to bring in less rental income due to its seasonal nature.

Furnished holiday lets come with tax advantages that BTL properties do not.¹ They are treated as a business, which means you can claim capital gains tax relief on any profits. Owners can also claim capital allowances to cover the cost of furnishings and furniture, and equipment such as refrigerators and washing machines.

There are more allowable expenses for a holiday let, compared to a BTL, including:

- ✓ letting agents' fees
- ✓ accountants' fees and certain legal fees
- ✓ mortgage interest
- ✓ building and contents insurance
- ✓ maintenance and repairs to the property
- ✓ utility bills, council tax, ground rents and service charges.

Speak to a financial adviser to work out what's best for your situation if you are looking for a specialist mortgage.

Some specialist mortgages are not regulated by the Financial Conduct Authority.

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

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.

What is income protection?

Income protection insurance pays out a percentage of your monthly income if you are unable to work.

Your income is important and keeps your family secure. So, if you are in a situation where you'd like to protect it if anything happened, you might want some income protection.

How does income protection work?

Income protection is an insurance policy, so you pay a monthly or annual premium for it like any other type of insurance. If you can't work because of sickness, disability, or other reasons (depending on your policy criteria), you will receive a regular income until you either return to paid work, retire, pass away or the policy term comes to an end.

The amount that is paid could be anything from 60% to 65% of your pre-tax income, and payments (which are tax free) will start after a pre-agreed waiting period, which could be weeks or months. You'll pay more in premiums if the waiting period is shorter, and the percentage of your income is larger.

Income protection is different to life insurance or critical illness cover, both of which do not pay regular amounts but instead give you one-off lump sums in the event of your death or the diagnosis of a critical illness. That's why it's important to seek financial advice if you are thinking about getting coverage.

Who could benefit from income protection?

If you work in a high-risk profession or have high-risk hobbies, you might want income protection in case you're unable to work because of an accident. If you've suffered an illness and feel you're at risk of being unable to work because of it, income protection could provide peace of mind, too.

Some things to consider if you are thinking about getting income protection include:

-  if you have a good level of statutory sick pay from your employer, you may not need more cover.
-  is it the best option for you and your situation? For example, do you (or your partner or spouse) have sufficient savings to help provide an income if you were unable to work?
-  can you keep up with the premiums?
-  will you find any exclusions in your policy difficult to manage?
-  are you close enough to retirement to not need income protection?

How are premiums calculated?

As with any insurance policy to do with your life and health, factors like your age, health condition, if you smoke, your occupation and others (like how much of your income you would like to receive, and how soon you would like payments to start) will be considered when your premium is calculated.

Our Protection Advisers will be able to give you advice and guide you through what type of policy works best for you, helping you find value for money as well as some peace of mind knowing your income is protected.

Our advisers can help you find an income protection policy to suit your needs and keep your family secure.

