Spring 2009

the mortgage

The bulletin from Stephen J Douglas Financial Services

Covering mortgages and much more...

Whilst we are facing tough times, it's not all bad news.

Stay with the ride

A lot has happened over recent months to help create a more stable economic environment in which consumers and businesses can endeavour to borrow with more certainty.

The Government has injected billions of pounds into the money markets. It has also taken stakes in some of the UK's largest banks. And more recently we have seen further announcements, such as the Government's 'insurance scheme' to cover bad debts held by the banks. This protection against some of the future losses on past investments may mean the banks will not have to reserve so much, and thus have more to lend to individuals and businesses.

On top of all this, we've seen a remarkable drop in the Bank rate. However, while many consumers may assume that the Bank rate dictates mortgage rates, the primary factor is the London Interbank Offered Rate (LIBOR). This is the rate of interest which banks lend to each other.

Historically, the three-month Sterling LIBOR has only been 0.15 - 0.3 per cent above the Bank rate, but went to almost 1.8 per cent above in October 2008. More recently it has fallen back to around 0.7 per cent above. *(Source: British Bankers' Association, January 2009)*

Together with the drop in the Bank rate, this should help to bring down mortgage interest rates.

Although, at the same time, we have seen a marked drop in house prices, which may, in turn, affect the percentage of your loan to the value of your property (the LTV) should you wish to remortgage.

Additionally, house repossessions are also on the rise, with the Council of Mortgage Lenders (CML) predicting 75,000 repossessions in 2009, which could depress house prices.

But it's not all bad...

For those who can access credit, the current conditions may actually provide excellent buying opportunities, as you'll know if you speak to any estate agent, housebuilder or property auction house. **For now, we're still in an environment where lenders are choosy about who they lend to, and that's why we're here, to help find the most suitable deal for your needs and circumstances.**

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Welcome.... to this newsletter, which covers what we believe are some of the key issues of the moment that affect mortgages and mortgage-related products - and sets out how we **may help you.**

There are good arguments for upping sticks and moving and equally good reasons for remaining at home.

Staying put...

If you adhere to the latter, then read on, as many homeowners up and down the country are doing up their homes in the hope that once the housing market stabilises, their most highly prized asset may sell for the best possible price. Or if they don't want to sell, they'll have a home that better suits their needs.

With money in the bank earning next to nothing these days, putting it to work on one's home can make economic sense, providing you spend the money wisely.

Research by Liverpool Victoria (LV=) sets out that aside from simple painting and decorating, the most popular home improvements are: **flooring** (undertaken or planned by 39 per cent of all respondents); **refitting the bathroom** (33 per cent); **landscaping the garden** (29 per cent); **refitting the kitchen** (29 per cent) and **installing new windows** (16 per cent). *(Source: Liverpool Victoria, April 2008)*

As for finance, you have various options. If you can pay for it out of savings, then fine. Otherwise, if you have equity in your property (and also meet the lender's LTV ratio), you may be able to **Remortgage** to release spare cash, or take out a **Secured Loan** (a second loan secured on your property). Or use a mixture of savings and a top-up loan.

Whatever your budget, we can work through the options with you and attempt to find the most suitable deals to help you realise the home of your dreams.

You may have to pay an early repayment charge to your existing lender if you remortgage. The Financial Services Authority does not regulate Secured Loans.

■ **YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE OR ANY OTHER DEBT SECURED ON IT.**

Think ahead

With job losses on the rise, taking out unemployment cover may be advisable in order to protect your outgoing loan repayments.

One way of securing this cover is via an Accident, Sickness and Unemployment (ASU) policy, which will pay out a percentage of your income for generally up to 12 months, if you lose your job or cannot work because of illness.

If you are self-employed, a temporary or contract worker, have been with your current employer for less than six months, or are over 65, you should tell us, as most policies exclude such workers.

Also you won't be eligible to make a claim if you buy a policy when you know, or suspect, that you are going to be made redundant. This would invalidate any claim you subsequently make.

You should also let us know if you have any pre-existing medical conditions or illnesses so that we can check that these are not excluded. For example, two of the most common conditions causing absence from work - back pain and stress - are usually not covered.

Costs and cover

ASU policies are typically priced at per £100 of monthly income insured and expect to pay between £2 and £6 per £100 of cover. You can arrange for a deferment period (the time that must elapse before you can make a claim) to dovetail with any cover for sickness absence that may be payable by your employer.

Workplace benefits typically cover employees for the first 3-6 months of absence due to sickness, so it is worth checking before deciding when you want your ASU cover to kick in. Clearly, the longer the deferment period, the lower the premium. Most ASU policies won't let you claim for the first three months anyway.

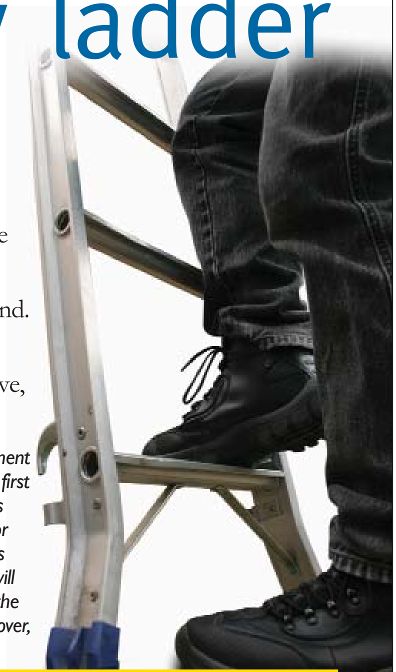
An ASU policy will normally protect between 50 and 75 per cent of your monthly income, but payouts generally only last for a year.

Let us know your needs and we'll try to find the right policy for you within the ASU range, or perhaps via the alternative protection policies also out there.

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

Getting on the property ladder

The Government recently unveiled a deal worth more than £400m aimed at helping first-time buyers to purchase their own home.



» So far more than 130 developers have agreed to offer the HomeBuy Direct scheme, which the Government claims will help up to 18,000 first-time buyers to purchase a home at sites across England aided by an equity loan, part-funded by the Government and the developer. The equity loan*, which will be free of charge for five years, can be used as a deposit and can cover up to 30% of the purchase price. This means a first-time buyer may be able to initially purchase a home worth £150,000 by obtaining a mortgage for only £105,000.

As with other HomeBuy schemes, any first-time buyers whose household income is under £60,000, who cannot otherwise afford to buy, will be able to apply. The Government also claims the scheme will support the house building industry by identifying buyers for their new homes, helping them to weather the current difficult conditions in the market.

Eligible first-time buyers will be able to apply for the scheme from early 2009, and similar schemes are also available in Scotland (LIFT), Wales and Northern Ireland.

We can help arrange a mortgage for you which, in addition to the HomeBuy Direct Government incentive, could potentially help you to purchase your home.

* *The equity loan would be co-funded on equal terms by the Government and the Developer. There will be no charge for the equity loan for the first five years, but a fee will be charged from year six onwards. Purchasers can buy up this equity (in installments, if wanted) at the market rate, or see it repaid, once the property is sold. If the value of the property has increased at the point of sale, the Buyer, Government and Developer will all share in this increase. If the value of the property has gone down, the Government and Developer will only share any proceeds that are left over, once the mortgage has been repaid.*

FAST FACTS...

- The average outstanding mortgage for the 11.7m households that currently have one stands at **£104,058.**
- The average household debt (excluding mortgages) of those households that have some form of unsecured loan is **£21,875.**
- During 2008, Britain's personal debt increased by **£1m every 10 minutes!**

(Source: Credit Action, compiled January 2009)

The property market may have ground to a near halt, but there may be a way to get round this, although it certainly isn't for the faint-hearted.

Goooal...

» With many bargains coming onto the market from distressed sellers, builders desperate to shift new builds and auction houses, you may feel it's a shame to miss out, simply because you can't sell your own home, at the price you want.

So this is how it works. If you have sufficient equity in your property, you remortgage your existing home, so that you have a sizeable deposit of at least 25 per cent for the purchase price of a new property.

Once you have found the home you want to buy, you look to rent out your existing property and inform your lender that the rent will cover the mortgage (assuming it does).

This enables you to hang on to your existing home, until the market (hopefully) picks up so that you can eventually sell it at a reasonable price. In the meantime, you have the deposit and if the sums add up, you then raise a new mortgage to buy the other property, while prices are lower. Although do take advice from an accountant to assess your Capital Gains Tax position across the two properties.

Avoid an own goal

But, bear in mind that this strategy can be full of risks - namely, you will have two mortgages to service and if you have difficulty in finding and retaining tenants, or the tenants default on the rent or damage your property, you could end up worse off than when you started. Also, remember that some mortgage lenders will charge a higher rate of interest on a rented property.

You could even end up losing one of the properties if you can't keep up with the mortgage payments.

However, if you can make it work for you, you may find you've got a bargain on the second property.

And with the CML saying that they expect 75,000 homes to be repossessed in 2009, the auction rooms may also be doing a roaring trade in shifting properties at knock-down prices. Check out auction sites like www.eigroup.co.uk.

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

The Financial Services Authority does not regulate taxation advice and most Buy-to-Let mortgages.

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.

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

If you have debt and dependants, on either a personal or business level, then you should consider certain options.

Do the right thing...

PERSONAL PROTECTION

Of the two main forms of **Life Assurance,** term assurance is the cheapest form, as it is designed to cover you for a set period only - normally the term of a mortgage or other loan.

The downside is that once the term expires, there is no pay-out if you die thereafter. The upside is that with increased life expectancy, the premiums for term assurance have become extremely competitive over the last decade.

Whole of life assurance is more expensive, as it will pay out whenever you die. Premiums for both types of insurance are dictated by factors such as your age, gender, smoker status and health.

BUSINESS PROTECTION

If you run a business, you may need some form of business protection. There are broadly three main types of cover: key person insurance, partnership or shareholder cover and business loan protection.

Key Person insurance: this is designed to provide your business with the funds needed to cope with the financial impact of the loss of a key person in your company.

The death or serious illness of a key person can cause considerable disruption. This could include loss of sales, loss of customer confidence, the withdrawal of credit facilities and the cost of hiring or training a new recruit.

Partnership or Shareholder cover: this will pay out a lump sum if one of the partners dies or is too ill to work. This helps to provide funds to buy company shares. The payout will help his or her family, as the share in the partnership might have been their main financial asset, other than their home. For the remaining partners, it helps ensure the smooth continuation of the business.

Business Loan protection: if your business has outstanding loans, it may be prudent to take out loan protection to cover the cost of the ongoing payments or to pay off the loan in full, in the event that the bank calls in the loan prematurely.

The latter could be triggered by a fall in sales, a breach of the loan covenant, loss of credit insurance or the serious illness or death of a key person.

If the finance has come from a director's loan account, and the director were to die, then their estate might demand repayment of the outstanding loan. A business loan protection policy should apply in such circumstances and hopefully provide the business with a cash sum to help repay the loan.

To find out more, please give us a call.

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

■ YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE OR ANY OTHER DEBT SECURED ON IT.

PLEASE GET IN TOUCH WITH ME!

I would like to discuss the following ticked topics with you. I understand that the request is without obligation. Also, by providing my telephone number, I give you permission to call.

- ❑ **Mortgage health check**
- ❑ **Remortgaging**
- ❑ **ASU cover**
- ❑ **First-time buyer**
- ❑ **Buy-to-let**
- ❑ **Commercial mortgages**
- ❑ **Buying a second home**
- ❑ **Secured loans**
- ❑ **Insurance and protection**
- ❑ **General mortgage information**

❑ **Other** (please specify) ____________________

❑ **Please do not send any further issues**

Name (Mr/Mrs/Ms) ____________________

Address ____________________

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Email ____________________

Tel (+ best time to call) ____________________ Signature ____________________

■ **The Financial Services Authority does not regulate secured loans or most buy-to-let mortgages and commercial mortgages.**

Please put the coupon in an envelope and post to: **Stephen J Douglas Financial Services, 4 Winton Square, Basingstoke, Hants RG21 8EN**

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE OR ANY OTHER DEBT SECURED ON IT.

No fee is payable. We will be paid a commission direct from the Lender.

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