Your

Finance Matters

Financial Magazine

Vegan Mortgage Adviser

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WINTER EDITION 2017/18

YOUR WINDOW ON FINANCIAL MATTERS

INSIDE THIS ISSUE

BUY-TO-LET LANDLORDS RAISING RENTS AS TAX CHANGES BITE – TENANTS BEWARE

The last few years have been a boom time for buy-to-let landlords, with rental properties in high demand.

However, in 2015 the then Chancellor, George Osborne, introduced measures that he hoped would 'level the playing field'. To deter more buy-to-let landlords from entering the market and encourage some to sell their properties, he restricted the tax concessions available on their mortgage interest payments, hoping that this would mean that more entry-level properties would be freed up for first-time buyers.

THE CHANGES START TO BITE

These tax changes mean that buy-to-let landlords, accustomed to claiming relief worth 40% or 45% will find their relief restricted to the basic rate of 20% once the changes are fully implemented in 2020. The tax relief that landlords of residential properties get for finance costs will be restricted to the basic rate of income tax, phased in from April 2017. This figure decreases by 25 percentage points each year until none can be accounted for in 2020-21, although a 20% tax credit will help. In addition, the 10% wear-and-tear allowance was discontinued from April; landlords can now only deduct the costs they have incurred.

This came on top of changes in Stamp Duty Land Tax (SDLT). From April 2016, anyone purchasing an additional residential property for £40,000 or more pays a surcharge of 3%. So, a landlord who bought a property for £200,000 prior to April 2016 would have paid just £1,500 SDLT. Now, a landlord purchasing the same property would see their bill rise to £7,500. Similar rules were adopted for Land and Buildings Transaction Tax in Scotland.

EFFECTS BEING FELT IN THE MARKET PLACE

Data from the Association of Residential Letting Agents [1] suggests landlords seeing their rental yields fall are beginning to press their tenants for higher rents to cover their costs and income shortfall. In November 2016, only 16% of agents saw landlords increasing rents, but that figure has risen to 35%, and is widely expected to rise further over the coming months. Clearly, following the recent rise in interest rates, more landlords will be endeavouring to offset their rising costs by raising rents.

In addition, lenders have introduced more stringent vetting procedures for buy-to-let mortgages where landlords already own four or more mortgaged properties. This may give rise to further changes in the dynamics of the buy-to-let market.

[1] ARLA (Association of Residential Letting Agents) Propertymark, Private Rented Sector report, August 2017

INTEREST RATE RISE – THE AFTERMATH

The increase in the Bank of England's base rate from 0.25% to 0.5% at the beginning of November represented the first rise in rates in over a decade. Most lenders swiftly announced that they would be passing on the full increase to their variable rate mortgage borrowers.

Low interest rates have been a major characteristic of the savings market for many years, and banks and building societies haven't been especially quick to pass on the increase. Those with savings accounts will be disappointed to learn that many banks and building societies are reluctant to increase rates, despite Theresa May's call for rate rises to be passed on to savers. Santander, for instance, has announced to its 22 million account holders that the interest rate on its 123 Current Account is set to remain at its current level of 1.5%.

The minutes from the Bank of England's Monetary Policy Committee indicated that it was in no hurry to raise rates again, and that further rate rises would be limited.

As a mortgage is secured against your home or property, it could be repossessed if you do not keep up mortgage repayments.

The Financial Conduct Authority does not regulate Commercial Buy-to-Let mortgages.

BORROWING AGE ELEVATED BY EXTRA-LONG MORTGAGES

The traditional 25-year mortgage may soon be a thing of the past as many first-time buyers are choosing loan terms of 30, 35 or even 40 years. Data from estate agents Countrywide[1], shows more than one third of mortgages taken out in 2017 are unlikely to be repaid until after the borrower has turned 65. This trend means more mortgages could extend beyond the current state pension age, in some cases up to age 85.

The Financial Conduct Authority urged lenders to be more innovative in their approach to the needs of older borrowers. An increasing number of lenders are now prepared to grant mortgages for a maximum term of 40 years, softening their attitude to lending that extends well into a borrower's retirement years, providing that they can meet the necessary affordability tests.

STRESS TESTS

Getting a mortgage has become more difficult since the introduction of rules designed to *"stress test"* a borrower's ability to comfortably make mortgage repayments if interest rates were to rise to at least 3% higher than those offered on their loan. By extending the term of the mortgage, borrowers can stand a better chance of getting their application accepted as their monthly repayments could be more affordable, although they will pay more interest as a result.

However, having a mortgage more than the standard 25 years could give rise to other problems. The longer the period of the borrowing, the greater the likelihood that the borrower might encounter unexpected problems like ill health. There is also the risk that long-term mortgages could leave borrowers with large debts to pay off in the run up to retirement and beyond.

Whilst longer mortgages can be an advantage in the early years, it makes good sense to regularly review your deal. That way, you can ensure that your mortgage keeps in step with your financial circumstances.

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[1] Countrywide, 2017

WINTER HOME CHECKLIST

This time of the year, it's worth doing a few simple checks around your property to make sure it's prepared for what winter might bring, so that any period of prolonged bad weather doesn't take its toll.

EXTERNAL CHECKS

Winter wind and rain can cause severe damage, so check that your roof is in good repair. Are there any loose or broken tiles? Is the flashing around chimneys secure? Apart from the damage that can be caused by falling tiles, their loss can lead to damage to the fabric of the building. Make sure that your guttering is clear and free from obstructions like fallen leaves, moss and debris, as overflowing gutters can cause major structural damage to walls. It makes sense to drain or lag outside taps in case they freeze. Garden furniture and patio sets should be stowed away in a shed or garage to prevent winter damage.

Keeping walkways and paths clean and free from moss and algae will help ensure that they don't become a hazard if they freeze. It's worth keeping some de-icing salt handy in case of need. Check that outside lights and security lights are clean and working properly.

INTERNAL CHECKS

Central heating boilers and radiators need to be regularly serviced. If you have boiler cover, you may want to keep the emergency contact telephone number handy. Make sure you know where the stopcock is located, in case you need to turn the water off in an emergency. Pipes and tanks should be lagged and the tank should have a lid fitted.

Smoke alarms need regular testing to ensure the batteries are in working order, and burglar alarms need to be maintained and tested, especially as burglary rates increase during the dark winter months.

It's worth checking your home insurance policy to see what cover you have for home emergencies, and keep your insurance company's helpline contact number to hand.

PROTECTING YOUR FAMILY'S FUTURE

When making their Wills, many parents appoint relations and close friends who would act as the guardians of their children in the event of their deaths. Although anyone nominated to fulfil this important role would be gratified to be thought of as worthy of carrying it out, it's important to remember that there could be all sorts of financial implications for both them and their families.

PLANNING FOR THE FUTURE

If family members had to step in and look after the children, they would need to have sufficient financial provision in place to be able to do so. If, for instance, a guardian lives in a different part of the country, they might have to move both house and job to look after the children's needs. As any parent knows only too well, raising a family is a life-affirming experience but it can also be very expensive.

POLICIES TO PROVIDE FUNDS

This is where life cover comes in. It can provide the funds necessary to ensure that a family's needs are protected, and they can enjoy the sort of lifestyle you would have provided had you still been around. Life cover provides a payout on death that can ensure that families don't face financial burdens at a difficult time. Critical illness cover provides funds if you are diagnosed with a serious illness. Income protection can enable you to pay off loans and maintain your standard of living if you have an accident or illness that means you can't work.

HOW WE CAN HELP

We're always on hand to help you choose the most appropriate protection policies based on your needs. We know the life insurance market well, and can save you hours of internet searching and calls to insurance companies for quotes. We help make the process far less stressful and time-consuming, and you won't be charged a fee for this service; we'll be paid by the companies whose policies we recommend.

HOW TO ADD VALUE WITH A HOME RENOVATION

The continuing rise in property prices has also fuelled a sharp increase in homeowners extending their properties with a view to adding value. In the year to June 2017, 197,000 people in England obtained planning permission to improve their homes, with a further 23,700 adding extensions under permitted development rights[1]. The figures suggest that, on average, one homeowner was extending or improving their property for every five who were buying a home.

ADDING SPACE

How much value you can add by updating the kitchen, the bathroom or adding another bedroom, will of course, depend on a variety of factors, including the type and location of the property. Research by a major insurance broker[2] shows that converting a single garage into a room could add as much as 20% to your home's value, and building a loft extension could add around 15%.

A conservatory provides extra space, although it will restrict the size of the garden. Unlike an extension, it won't usually require planning permission as long as it doesn't cover more than half the area of the land occupied by the original house (your local council planning department can advise). Having one could add around 7% in value.

Basement digs have also become popular over the last few years. However, they are usually only undertaken where house prices are so high that the value they add covers the cost of the work.

AFFORDABLE WAYS TO ADD BUYER APPEAL

Even simple make-overs, like painting and decorating the exterior and tidying the garden, could result in a 10% rise in value.

If you don't have the budget to completely renovate your kitchen, replacing the worktops, cupboard doors and flooring can make it more attractive to buyers. In the bathroom, a new suite can make a big difference, but if funds are tight, simply replacing taps, painting walls and cleaning the tiles can improve its appeal.

[1] Savills, 2017

[2] Towergate Insurance, 2017

THE HIDDEN COST OF RETIREMENT PROPERTIES

In the glossy brochures often used to promote them, retirement complexes can look very attractive. With rising life expectancy meaning that many more of us are likely to live well into our 90s and beyond, they can be an appealing proposition, especially for those who don't have immediate family to look after them.

THE ADVANTAGES THEY OFFER

This type of living environment can provide a ready-made community of similar-aged people, a warden who often lives on the premises, panic buttons located in every unit, a residents' lounge offering the opportunity for socialising, as well as attractive landscape gardens and grounds. Meals are often available from an in-house restaurant, and many complexes offer help with household chores like laundry. Residents don't have to worry about repairs or maintenance issues, as these services are included.

ADDITIONAL CHARGES MAY APPLY

However, it's important to be aware that retirement properties, for all their many benefits, don't operate quite like the rest of the property market. There may, for instance, be an exit fee on resale. This is a sum of money that goes back to the freeholder, and is built into the lease.

In addition, the service charges can be much higher than you'd expect to pay for an ordinary flat, mainly because there are far more services on offer to cater for the needs of elderly residents. If you're thinking of buying a retirement property, you may need to ensure that your pension or retirement income will be sufficient to cover these costs.

It's also important to be aware service charges are payable up until the property is sold. This means if the owner needs to go into hospital or care, the service charge still needs to be paid. If the owner dies, the same thing applies. Retirement flats can be hard to sell, and over the last few years haven't generally enjoyed the growth in value experienced elsewhere in the property market.

LOSSES ON SALE

In some instances, when the property needs to be sold, the freeholder will stipulate that this must be done through their own company. This can mean that the charges will be higher than those of high street estate agents.

DOING YOUR HOMEWORK

If you're thinking about buying this type of property, talk through the terms of the lease with your solicitor. Contact the manager of the development and ask to meet other residents. Seek their views on issues like the quality of the management, repairs and maintenance, service charges and the range of services on offer. Some retirement complexes are now offering 'Try before you buy' stays to provide would-be residents with a chance to sample the lifestyle before committing to purchase.

HIGHLIGHTS FROM THE AUTUMN BUDGET 2017

- Stamp duty abolished immediately for first-time buyers purchasing properties worth up to £300,000
- To help those in expensive areas, the first £300,000 of the cost of a maximum £500,000 purchase will be exempt from stamp duty, with the excess of up to £200,000 incurring 5% duty
- Not applicable in Scotland unless Scottish government decides to follow suit
- Pension lifetime allowance to increase in April 2018 to £1,030,000
- Higher-rate tax threshold to increase to £46,350 from April 2018 (Scotland may differ)
- ISA limit for 2018/19 to remain at £20,000
- JISA and CTF allowance will be uprated in line with CPI to £4,260 in 2018/19
- The National Living Wage and the National Minimum Wage will increase from April 2018
- The tax-free personal allowance will rise with inflation to £11,850 from April 2018
- An extra £3 billion to prepare for Brexit over the next two years
- £6.3 billion of new funding for the NHS in England
- Fuel duty will remain frozen for an eighth year
- A new railcard for those aged 26 to 30

IF YOU WOULD LIKE ANY ADVICE OR INFORMATION ON ANY OF THE AREAS HIGHLIGHTED IN THIS NEWSLETTER, PLEASE GET IN TOUCH.