Step On or Step Up The Property Ladder – Mortgages Unwrapped

IN ASSOCIATION WITH KINNISON LIMITED

FACILITATED BY JOHN GASKELL, HEAD OF PERSONAL FINANCIAL PLANNING, ICAEW

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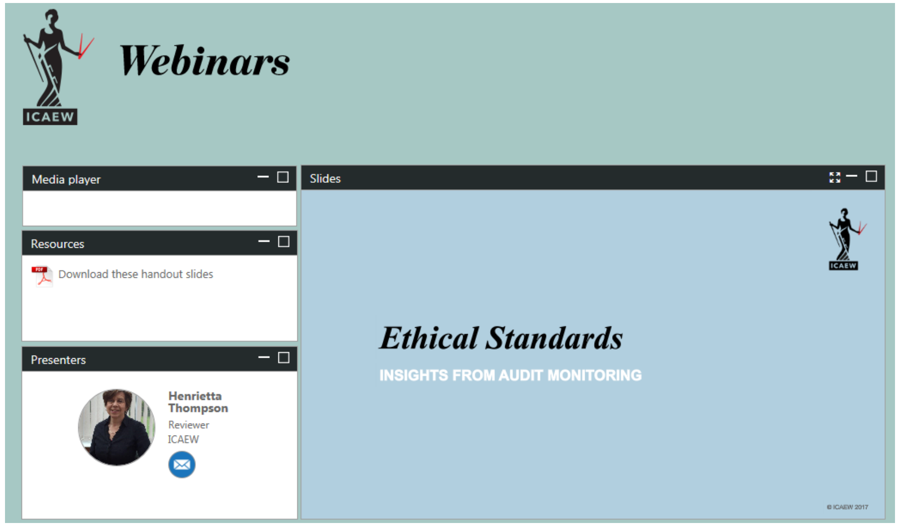

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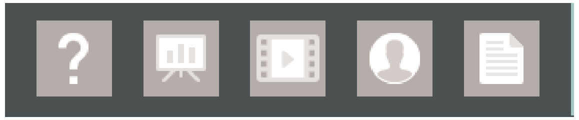

Today's speaker

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KINNISON
PROPERTY FINANCE EXPERTS

Step On or Step Up The Property Ladder – Mortgages Unwrapped

Jatin Patel

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Agenda

1. General overview
2. How much can I borrow?
3. First time buyers
4. Stamp duty land tax
5. How to source the right mortgage
6. How Kinnison can support you

General overview – Commonly used terminology

Annual Percentage Rate (APR) - The total cost of a loan, including interest charges and product fees, shown as a percentage rate. The calculation assumes that you maintain the mortgage for the full term. APR is an industry standard calculation and enables direct comparison of mortgages from all lenders.

BOE – Bank of England

Early Repayment Charge (ERC) – The amount the lender will charge if you part repay or fully repay the loan early.

Freehold (F/H) – outright ownership of the property and the land on which it stands. No time limit to period of ownership.

Leasehold (L/H) – ownership of the property as long as is specified in the lease agreement. Ownership reverts back to the freeholder when the lease term expires.

Loan to value (LTV) - The amount of mortgage expressed as a percentage of the property value. For example, if your mortgage amount was £85,000 and your property is valued at £100,000, your loan to value is 85%.

London Inter-bank Offered Rate (Libor) – the average interbank interest rate at which London banks lend to one another

Mortgagor – home owner who takes a mortgage

Mortgagee – the lender who advances the loan taking security over the property

Portability – term used when a mortgage contract permits the borrower to transfer their mortgage to a new property with the same lender without penalties on the same terms.

Stamp Duty Land Tax (SDLT) – the tax you pay when you buy property (leasehold or freehold)

Standard Variable Rate (SVR) - the interest rate that a lender chooses to apply to mortgages, typically when a customer's fixed rate or tracker rate ends. Unlike a tracker mortgage, the Bank may choose not to follow the specific indices linked to the tracker mortgage (usually the Bank of England's Base Rate) when adjusting their SVR. The interest rate may go up or down and the borrowers monthly payments will vary correspondingly

General overview

Taking a mortgage to buy a home can be the single largest, most stressful financial commitment anyone makes.

What is a mortgage?

- A mortgage is a loan taken to buy property
- The loan is ‘secured’ against the property
- The length of the mortgage can vary, however typically most are for 25 years
- If the borrower does not keep up with repayments the lender has the right to take possession of the property

Types of mortgages

Interest Rate Types

- Fixed rates
- Variable rates
- Discount rates
- Tracker
- Capped rate
- Offset

Repayment Types

Interest only
Capital and interest

Part and part ie combination of the above Interest + Repayment Types

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Fixed v Variable rate mortgage

Fixed Rate Mortgages

- Rate of interest you pay is fixed for an agreed period
- Typically can agree this period for either 2,3 or 5 years (sometimes longer)
- Monthly payments remain the same during the fixed period
- After the end of the fixed period the rate of interest on the mortgage will typically revert to the Bank's SVR

Pros and cons

- Fixed monthly payments allow you to manage your finances
- If BOE raises or lowers interest rates during the fixed period your rate of interest does not change
- Typically lenders will charge an ERC if the borrower repays partially or in full the mortgage during the fixed period
- Some lenders will allow you to pay off a certain per centage of the loan every year during the fixed period without incurring an ERC

Fixed v Variable rate mortgage

Variable Rate Mortgages

- Rate of interest can fluctuate during the term of the mortgage
- There are two main types of variable interest rate: the standard variable rate or a tracker rate
- The standard variable rate is fixed by your lender, who can increase or decrease it at any point (often triggered when the BOE changes the base rate)
- A tracker rate follows the movements of another interest rate, usually the BOE's base rate. So, if the base rate goes down, the tracker rate will automatically go down and vice versa.
- Some lenders use Libor or their own managed base rate rather than the BOE base rate

Pros and cons

- If BOE interest rates rise then your monthly payments will also rise
- Possibility that you'll end up with a lower interest rate and lower monthly repayments if there is a reduction in BOE base rate
- The uncertainty makes it harder to plan your monthly finances
- Possible to make capital repayments without ERCs.

Interest only v Repayment mortgage

Interest only mortgages

- During the term of the mortgage you only pay the interest
- Your loan amount does not reduce over time
- At the end of the mortgage you will need to pay off the entire loan amount
- Viable repayment strategy to be set out at the outset of the mortgage and evidenced during the term of the mortgage to ensure it remains appropriate

Pros and cons

- Your monthly payments are lower as you are only paying the interest
- You need to have a plan for repaying the full loan amount at the end of the mortgage
- The initial loan to value could be lower than a repayment mortgage
- You will pay more interest over the term of the loan

Interest only v Repayment mortgage

Repayment mortgages

- During the term of the mortgage you pay interest and capital
- Your loan amount reduces over time

Pros and cons

- Your monthly payments are higher as you are paying interest and capital
- Your initial loan to value could be higher (than for a interest only mortgage)
- You do not need to make separate plans/provisions for the capital to be repaid at the end of the mortgage term
- You will pay less interest over the term of the loan

Some lenders also offer mortgages with both repayment and interest only components

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How much can I borrow?

Mortgage lenders in the UK are regulated by the Financial Conduct Authority (FCA) which provides affordability guidance to lenders who:

- Assess a borrowers level of annual earned income and ensure this is evidenced
- Assess a borrower's ability to 'afford' a mortgage based on annual income and expenses
- Set internal guidelines:
    - for individuals in certain professions
    - treatment of irregular earned income
    - treatment for 'self employed' income
    - age restrictions

Student Loans

- Should not restrict your ability to apply for a mortgage
- Needs to be disclosed as part of your application process
- If you are making monthly repayments through payroll this will be taken into consideration when assessing how much you can afford to borrow

How much can I borrow?

Income	£30,000	£60,000	£80,000
LTV	Single individual	Single professional	Couple with one professional
Up to 80%	£150,000 (upto 5 X income)	£360,000 (upto 6 X income)	£480,000 (upto 6 X joint income)
Between 80% and 95%	£134,700 (upto 4.49 X income)	£330,000 (upto 5.5 X income)	Upto 5.5 X professional income + 5 times non professional income

The above tables are for illustrative purposes only

As well as income, lenders will also take into consideration living costs:

- Committed expenditure – eg student loans, car loans, credit card debts, school fees
- Essential livings costs – eg utility bills, council tax
- Quality of living costs – eg holidays, gym membership

Such costs can have a significant impact on the amount lenders finally agree to lend

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First Time Buyers

Government initiatives to help first time buyers

Help-to-Buy Mortgages

- You only need a 5% deposit assuming you can secure a 75% mortgage
- Government lends up to 20% (40% for Greater London) of the cost of a **newly built property**
- Government loan acts like a equity stake in your property whereby you share any profit/loss with the government on sale
- No interest charged on government loan for first 5 years

Shared Ownership

- Hybrid between buying and renting
- Lets you borrow between 25% and 75% of the property value and pay rent for the remainder
- Generally only applies to new build properties specifically designated for shared ownership
- Over time you can purchase a greater share of the property until you own 100%

Help-to-Buy Individual Savings Account

- Savers receive a 25% bonus when they withdraw the money to buy their **first** property
- Max bonus is £3,000 if you have saved £12,000
- Initial lump sum up to £1,200 and then you can deposit up to £200 per month
- Not available to new savers after November 2019

Be sure that you research each initiatives' definition of 'first time buyer'

First Time Buyers

Bank/building society initiatives to assist first time buyers

- Innovative products to assist you:
  - Lend A Hand products
  - Family Springboard Mortgage
  - Family Boost Mortgage

- Products that assist you with some of the costs associated with buying a home:
  - Lower or no arrangement fees
  - Assistance with legal costs
  - Assistance with valuation fees
  - ‘Cash back’

Be sure that you research each lenders definition of ‘first time buyer’

Bank of Mum and Dad (BoMaD)

How can parents help you buy a home?

- Lump sum cash gift for deposit
- Lump sum cash loan for deposit
- Agree to be part of the mortgage application – their (excess) income could assist with mortgage amount.

Points to consider when receiving financial assistance:

- Loan or cash gift should be documented
- Parents may also have to be involved in your mortgage application process
- SDLT implications of being part of the mortgage application (if named on property title deeds)
- Age of parents - could have an implication on the length of the mortgage you apply for

Stamp Duty Land Tax "SDLT"

The tax you pay when you:

- buy a freehold property or new or existing leasehold
- buy a property through a shared ownership scheme

Property purchase value	SDLT rate
Up to £125,000	0%
The next £125,000 (the portion from £125,001 to £250,000)	2%
The next £675,000 (the portion from £250,001 to £925,000)	5%
The next £575,000 (the portion from £925,001 to £1.5 million)	10%
The remaining amount (the portion above £1.5 million)	12%

Example
If you buy a house for £350,000 the SDLT you owe is calculated as follows:
0% on the first £125,000 = £0
2% on the next £125,000 = £2,500
5% on the final £100,000 = £5,000
Total SDLT = £7,500
Please ensure you take the appropriate legal and tax advice to ensure you pay the appropriate amount of SDLT

Stamp Duty Land Tax "SDLT" – first time buyers

SDLT relief introduced for transaction after 22 November 2017:

- Applies where the buyer(s) is(are) a first time buyer*
- Purchase price not more than £500,000
- 0% of first £300,000
- 5% on the amount above £300,000

Example
If you buy a house for £350,000 the SDLT you owe is calculated as follows:
0% on the first £300,000 = £0
5% on the next £50,000 = £2,500
Total SDLT = £2,500
Please ensure you take the appropriate legal and tax advice to ensure you pay the appropriate amount of SDLT

*Be sure that you research the HMRC definition of 'first time buyer'

Employed v Partner

- Transitioning from employed to partner status may affect your ability to secure a mortgage or re-mortgage
- For the purposes of a mortgage, lenders may regard partners as 'self employed'
- Issues to consider prior to becoming a partner:
  - Do you have a mortgage where the term is coming to expire?
  - Should you refinance an existing mortgage prior to accepting partnership?
  - Are you looking to move home within the foreseeable future?
  - Does you existing mortgage have significant early repayment charges?

How to source the right mortgage

Mortgage lender landscape:

- High street banks
- Online only banks
- Building societies
- Regional building societies
- Challenger banks
- Private banks (with or without assets under management)

How to source the right mortgage

A number of options are available to you:

- Direct approach to lenders
- Comparison websites/online mortgage brokers
  - Money facts
  - Money saving expert
  - Money supermarket
  - Which?
  - Habito
- Mortgage brokers
  - Tied agents – brokers who represent a specific panel of lenders
  - Whole of market – brokers who access all lenders and are not restricted to a panel

Common errors made during mortgage application process

- Selecting the wrong lender/product

- Thorough review of you credit history/report:
  - Check a couple of credit reports
  - Deal with any outstanding issues

- Over estimating personal income

- Underestimating/omitting personal expenses and other loan commitments

- Bank statement entries

How Kinnison can support you

- Fully understanding your medium and long term personal circumstances
  - To ensure that you have taken into account all related costs
  - To check your finances to ensure that you can afford the mortgage

- Help you prepare to apply for a mortgage:
  - Guidance on checking your credit score
  - Collate relevant 'know your client' documentation – utility bills, valid passport, driving license
  - Collate supporting documentation:
    - Up to 6 months payslips
    - Up to 6 months banks and credit card statements
    - P60s and/or prior year HMRC tax returns

- Research the whole of the market to source an appropriate lender and product taking into account lender restrictions:
  - Number and age of mortgage applicants
  - Type of property eg ex local authority, new build etc
  - Options for early repayments

- Assist with completing the paperwork for you, ensuring the questions are answered appropriately

How Kinnison can support you

After the application has been submitted:

- Answer any questions that the lender may have after your application
- Understand your mortgage offer/conditions:
  - Interest rate, mortgage term, monthly repayment terms and amounts
  - Conditions for overpayment, fees, early repayment charges
  - Payment holidays
  - Total cost of borrowing
- Assist you through the completion of your mortgage/purchase/refinance
  - Liase with lender
  - Interact with valuers/solicitors

How Kinnison can support you

Looking ahead

- Consider whether you need an insurance policy to cover periods of unemployment due to illness or redundancy:
  - Critical illness cover
  - Income protection policies
  - Life insurance
- Update your will

The Mortgage re-finance process

- Ideally start working on this 3 to 6 months before your mortgage deal comes to an end
- Review your financial position ie level of income, other debt
- Review your personal position ie employed v self employed, career break

How Kinnison can support you

Through our partnership with the ICAEW we have a dedicated mortgage advisory service for ICAEW members at a significantly discounted fee structure:

Fee structure	Service
Retail banks and building societies (mortgages <£750k) ➢ Fee of £199 on application and £299 on completion ➢ No further fee payable ➢ Kinnison will receive a fee from the lender	➢ Whole of market access ➢ Real time access to products and rates ➢ Deep understanding of lenders affordability and repayment criteria ➢ Time efficient

Fee structure	Service
Private banks and specialist lenders (mortgages > £750k) ➢ Kinnison standard fee of 1.1% reduced to 0.6% of the finance arranged ➢ Kinnison may receive a fee from the lender, which, if received will be rebated against the 0.6% client fee	➢ Access to an opaque mortgage market ➢ Bespoke and negotiated terms, conditions and pricing ➢ Preparation of full credit paper ➢ Understanding of the credit officer approach

The Impact of COVID-19

Government/Regulator Reactions

- Cut in BoE interest rates to 0.1%
- Introduction of ‘payment holidays’ (up to 3 months) for:
  - Residential mortgages
  - Buy to let mortgages

Bank/Lender Reactions

- Information on websites on the process for claiming ‘payment holidays’
- Creation of dedicated helplines for existing borrowers who wish to discuss their personal positions
- Some lenders have withdrawn some of their variable rate products

The Impact of COVID-19

What do existing borrowers need to do/consider?

- Prepare a personal monthly cash flow and consider whether to apply for a ‘payment holiday’

- Review their existing mortgage and establish the following:
  - Is it interest only or a repayment mortgage?
  - When does the existing term of the mortgage come to an end?

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Any questions?

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- Follow this link to join for free: www.icaew.com/pfp
- Free for all ICAEW members and other professionals
- Keep abreast of topics affecting the PFP sector.
- Access resources covering regulation, pensions, investments, estate planning and business & practice development.
- Book your place on our webinars, workshops and conferences.

ICAEW Coronavirus (COVID-19) hub

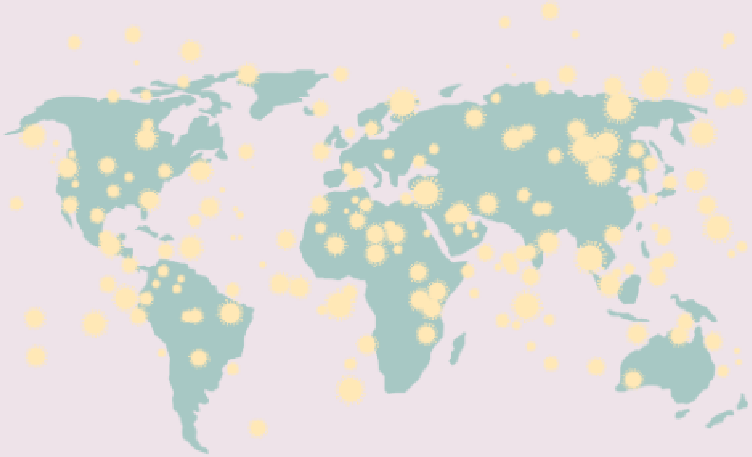
ICAEW is collating resources to offer support and information to members as conditions unfold

Please visit https://www.icaew.com/insights/coronavirus?fromSearch=1 or see the link in the resources box to our hub

Coronavirus

Coronavirus is not just a world health emergency; it is an economic one too. The economic impacts are plain to see and emergency provisions are being made worldwide in an attempt to support individuals, business and anyone who advises them. ICAEW is monitoring the situation closely and collating resources as conditions unfold.

NEW - Practical business advice for clients



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