

# the mortgage

The bulletin from Kingston Mortgage Services Ltd



## The financial Rapids

With so many factors currently having an impact on the UK housing and mortgage market, it's no wonder that there's confusion on what will happen next.

» Overall though, we do seem to be seeing an improvement in this marketplace, with a number of elements starting to move it in the right direction. According to the Council of Mortgage Lenders (CML), there have been signs of increased mortgage availability in recent months, with higher loan-to-value mortgages becoming available. (Sources: CML market commentary, May 2010; Moneyfacts, August 2010)

House prices have also seen a recovery, with the average house price of £166,507 in August 2010, being 3.9% up year-on-year, albeit it's down by 0.9% against July - the second consecutive monthly fall. (Source: Nationwide, August 2010)

Also, with the UK not building anywhere near enough new homes each year, this may fuel any demand for housing.

So what does this mean for you? Well, the big issues continue to be **when interest**

**rates will move upwards**, and the ability of a borrower to meet the Lender's criteria to secure a new mortgage. With our extensive market knowledge, we can help with the latter, but the former is still something that's up for discussion.

### Interest rates

Whilst there's a broad consensus that the Base Rate may not move upwards for a while, there are also a number of current factors that could influence an earlier upward trend. For example, annual inflation in July 2010 was 3.1%, which is well above the 2% target. And fuel prices, along with the unknown longer-term effects of the Quantitative Easing programme of pumping money into the economy, may drive it even higher. And there are voices out there, such as the Organisation for Economic

Co-Operation and Development (OECD) who feel the Base Rate may need to rise from its current level of 0.5% to 3.5% by the end of next year to combat inflation!

(Source: OECD, May 2010)

And whenever the time does come to tackle inflation, the Governor of the Bank of England in his Mansion House speech in June 2010 hinted that raising the Base Rate at some point in the future would be their initial route ahead of other options.

So whilst a good number of you will be enjoying some of the lowest interest rates you've ever encountered, it makes sense to take advice to see how you can meet any borrowing needs, not just for 2010, but into the longer-term.

In the shorter-term, the best option may be to stay with your existing mortgage deal, but you must be mindful that at some stage the Base Rate may start going up. And when that happens the lenders are likely to rapidly reprice their deals. To possibly avoid losing out, this may require you to anticipate when a rise could occur, in order to secure a **Fixed or Variable deal** that best suits your needs.

### Impact of the Budget

Belt tightening is the order of the day, with some initiatives directly affecting the housing and mortgage marketplace.

We've already seen the end of HIPs, which has encouraged more homeowners to dip

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## Welcome.... to this newsletter.

- Kingston Mortgage Services Ltd is an Appointed Representative of First Complete Ltd, which is authorised and regulated by the Financial Services Authority. Not all products and services covered in this newsletter are regulated by the Financial Services Authority.
- Regarding Bridging Loans (see the story on page 3), if you have a need for bridging finance, we will refer you to a First Complete preferred provider.
- We don't normally charge a broker fee, however should a fee be charged it will typically be 0.5% of the mortgage amount, payable on application. The precise amount will depend on your circumstances.
- **Your home may be repossessed if you do not keep up repayments on your mortgage.**



# RELAX... it's under control

In the same way that you'll seek the professional advice of doctors, lawyers and tradespeople, it makes sense to use a professional to help you through the mortgage and protection maze.

» And you won't be alone, as almost two-thirds of all mortgage lending in the first quarter of 2010 went through brokers, and this is why...

*(Source: Intermediary Mortgage Lenders Association, May 2010)*

## Market knowledge

Lenders these days are more discerning about who they lend to. For our part, in addition to using computer systems to scour the market, we work in this arena day-in, day-out, so we have an excellent understanding of how Lenders operate. And which Lender may offer the most suitable deal, whatever your employment

status - with simple or complex income streams.

And unlike going direct to a High Street Lender - who will offer their own range of mortgage and protection products, we can provide you with all relevant information across the wider marketplace. This will enable you to make a fully informed choice as to the most suitable product for your own situation.

## Time saving for you

Once we establish your requirements, we can see what's on offer and help guide you through the process by liaising with

all parties. Hopefully, this will greatly reduce the amount of time you may need to devote to your application.

## Protect your credit rating

Each time you apply for credit, this may be recorded on the files held by the credit reference agencies. It could result in a downgraded rating - which may ultimately make the cost of borrowing higher for you. As we should have a better steer on where you may secure an offer, we can limit the number of Lenders that need to be approached.

## Not just mortgages...

As you may be aware, we can also cover a number of financial products beyond mortgages and can discuss those wider requirements with you too.

**So, if you are looking for a specific product or simply wish to review your current arrangements, do get in touch.**

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

The unexpected could happen at any time. Did you know that almost 50 adults, aged under 44, die every day!

*(Source: Office for National Statistics, 2009 figures for England & Wales)*

There are numerous protection policies out there to help provide cover should you lose your job, suffer an accident, or have a long-term or life-threatening illness. Of course, you may recover from all of the above, return to work and get your finances back on track. But what if you die? There's no second chance!

That's why it's vital that you (and your spouse) have some life cover in place, in order to protect the ones left behind.

And there's no excuse for not considering taking out life cover, with rates lower now than they were five years ago! For example, if you were a 39 year-old, non-smoking male, looking for £100,000 of life cover, over a 20 year term, then it may cost around £12.57/month today against

# Too young to die?

£16.12/month five years ago! And if you started the same policy at age 29 - then the price would be almost half, at just £7.33/month - less than the price of a weekly take-away coffee!

*(Source: Moneyfacts; comparison of the average premium from over 20 firms; June 2010 vs. June 2005)*

And once you do set up life cover, consider placing the policy in trust, to help ensure it's not added to the value of your estate for inheritance tax.

As with all insurance policies, terms, conditions and exclusions will apply. Any premium quoted is an estimate only and that the actual premium will depend on individual circumstances. The Financial Services Authority does not regulate Taxation or Trust advice.

# Buy-to-Let

The availability of Buy-to-Let mortgages were one of the biggest casualties of the economic downturn - but have made a return over recent months.



» There has been a greater desire to start lending again to the buy-to-let market. This viewpoint has also been reinforced by an increasing number of Lenders returning to this sector, coupled with a growing number of products on offer - with slightly better interest rates and less hefty fees.

Of course, it's not back to the old days when property prices were roaring upwards, coupled with a more relaxed lending environment. So you'll still have to do your homework, whether you're an existing landlord or are keen to enter this marketplace. Particularly as Lenders are generally looking for a deposit of 25% or more. And seeking around a 125% rental return against the mortgage payments - to help cover any additional costs or voids, when the property isn't being rented out.

And, of course, the recent rise in Capital Gains Tax (CGT) from 18% to 28% for higher rate taxpayers, may temper the enthusiasm for those looking for (or who have enjoyed) 'capital appreciation'. Albeit CGT does remain at 18% for basic rate taxpayers. Whatever your position though, your initial investment in buy-to-let should really be driven by securing a regular rental income, and to view it as a longer-term investment.

So don't forget the positive signs out there. There continues to be good tenant demand, coupled with the level of both rent arrears and voids stabilising. The Q1 research from the Association of Residential Letting Agents (ARLA) shows that over 30% of ARLA members felt that achievable rent levels had increased in the last six months, compared to just 12.5% being of

the same view at the end of 2009. And Paragon Trends research shows that the number of landlords wanting to purchase property has nearly doubled, with 21% looking to do so in Q3 of this year, against just 12% in Q2.

(Sources: ARLA, March 2010; Paragon, June 2010)

**All fairly positive, but it's still a complex market in which to secure funding and operate within, so do get in touch to find out how we can help.**

**The Financial Services Authority does not regulate 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. Past performance is not a guide to future performance.**

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

## BUY-TO-LET TIPS

- Understand the area in which you wish to purchase.
- Decide which type of property you're after.
- Who you want to target; ie young professionals, students, families, etc.
- Likely purchase price and rental income of similar properties.
- Do the maths stack up?

## Overcoming Hurdles

**Bridging Loans** are a specialist area of the marketplace and can be an option for people looking to secure short-term funds quickly - albeit it can be a more expensive form of borrowing.

These funds could enable borrowers to help obtain a property (at auction perhaps), or make enhancements to their current property, while waiting for a loan from their mortgage lender or other source to come through.

**The Financial Services Authority does not regulate some aspects of Bridging Loans.**

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

## Mortgage Calculator

Here's how to use the mortgage payments calculator. A £100,000 mortgage over 25 years, charged at a 4% interest rate would cost 100 x £5.28 (for Repayment) = £528 per month.

Monthly payments for a mortgage per £1,000 borrowed over 25 years

% Interest rate	Interest-only*		Repayment
	£	£	
1.00	0.83	3.77	
1.50	1.25	4.00	
2.00	1.67	4.24	
2.50	2.08	4.49	
3.00	2.50	4.74	
3.50	2.92	5.01	
4.00	3.33	5.28	
4.50	3.75	5.56	
5.00	4.17	5.85	
5.50	4.58	6.14	
6.00	5.00	6.44	
6.50	5.42	6.75	
7.00	5.83	7.07	
7.50	6.25	7.39	
8.00	6.67	7.72	

(Source: Halifax, June 2010)

\* Excludes any payments to a separate savings scheme, to help pay off the capital amount borrowed.

This calculator only provides a guide to monthly payments and does not guarantee eligibility for a mortgage. The actual amounts that you may have to pay may be more or less than the amounts shown. Please contact us for a personalised Key Facts Illustration.

# Will YOU? WON'T YOU?

Last Will and Testament  
I, the undersigned,  
*Jane Dol*  
I hereby declare this to be my Will.

A massive two-thirds of people\* never get round to making a **Will**, yet it may create enormous problems for the nearest and dearest if there isn't one.

(Source: \*Advicenow, February 2010)

Of course, we may assume that when the worst happens, the law would ensure our estate went to our loved ones anyway. But, unfortunately, this may not always be the case.

For example, dying Intestate (without a Will) may mean that whilst your spouse (or registered civil partner) will be the first person entitled to the estate, they may not inherit all of it. And it's even worse for unmarried couples! And without a Will in place the whole process is slowed down dramatically, often meaning that the family left behind may face financial hardship, at the worst possible time.

Additionally, if you have young children, you would surely want to set out in a Will how they should be looked after.

That's why writing a Will should be a key aspect of your estate planning, where you would also give consideration to Inheritance Tax (IHT) and the use of Trusts to further assist in tax planning.

## IHT

Inheritance Tax is usually paid on an estate when somebody dies, if the value of the estate exceeds the threshold level. The amount an 'individual' can bequeath free of IHT (called the 'nil rate band') is currently £325,000 for 2010-11 (which could increase up to as much as £650,000 for the second spouse/registered civil partner, if the initial portion was not used). After that, your worldwide estate (including property) is taxable at 40% on any excess over the nil rate band.

You can also make use of the numerous IHT-exempt gift allowances during your lifetime. And once maximised, you can make further gifts, which will generally be free from IHT, providing you survive seven years from the date of the gift.

## Trusts

You can set up a Trust in your lifetime or in your Will. A Trust is another legal arrangement and common uses include the following:

- o to possibly reduce the tax liability, for example, by placing insurance policies in trust.
- o to protect beneficiaries who might be too young to handle their affairs.
- o to protect someone who can't handle their affairs because they are incapacitated.
- o to help lessen a couple's liability if either has to go into long-term care.

**Whilst this information may initially seem quite daunting (and morbid too!), it's vitally important. Should you need to arrange a will or advice in respect to Inheritance Tax Planning, whilst First Complete do not provide advice in these areas, your enquiry will be referred to a First Complete preferred provider.**

**The Financial Services Authority does not regulate Taxation and Trust advice or Will writing.**

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

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their toe in the property selling market.

Capital Gains Tax (CGT) stays at 18% for basic rate taxpayers, but rises to 28% for higher rate taxpayers, which was actually much lower than initially speculated.

Of course, the increase in VAT from 17.5% to 20% from early January 2011, will have an impact on purchasing.

Elsewhere, there are rumblings from the Financial Services Authority that 'Interest-Only' mortgages may be something that they will look closer at - with some Lenders already requiring more details on how the capital amount will be paid off. In some cases, slightly higher rates are even being applied to 'Interest-Only' against the 'Repayment' option for the same product offering.

■ We cover mortgages, insurance and protection products, and are able to refer you to preferred providers, should we identify that you have needs in a number of other areas:  
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Web: [www.kingstonmortgages.co.uk](http://www.kingstonmortgages.co.uk)

## The next step

If you decide to take action, then you need to consider if you want the 'certainty of knowing what you'll be paying' through a **Fixed Rate**. Where either a 2-3 year deal or possibly the 5 year+ deals might be for you. Alternatively, you may want to track the Base Rate, for example, through a **Variable Tracker** deal. Remember, even if the Base Rate doesn't rise, it doesn't mean that Lenders won't increase their own Standard Variable Rates!

So have a look at our 'mortgage payments calculator' on page 3, and see how any possible rises may affect you (and what you could afford into the future). If you then want the current crop of low interest rate products to work for you, on your terms, **talk to us to find out more...**

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

**Not all products and services covered in this newsletter are regulated by the Financial Services Authority.**

**We don't normally charge a broker fee, however should a fee be charged it will typically be 0.5% of the mortgage amount, payable on application. The precise amount will depend on your circumstances.**

■ The contents of this newsletter are believed to be correct at the date of publication (September 2010).

■ Every care is taken that the information in *The Mortgage* newsletter is accurate at the time of going to press. However, all information and figures are subject to change and you should always make enquiries and check details and, where necessary, seek legal advice before entering into any transaction.

■ The information in this newsletter is of a general nature. You should seek professional advice tailored to your needs and circumstances before making any decisions.