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YOUR WINDOW ON FINANCIAL MATTERS

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MORE HOMEOWNERS CLIMBING THE LADDER

There's some better news for those who are looking to make their move up the housing ladder. Second-steppers, as they are often referred to, are mostly couples and young families seeking to move on from their first home to somewhere bigger.

Figures from Lloyds Bank[1] show that more than 370,000 homeowners were able to step up the housing ladder and purchase their next property with a mortgage in 2017, the highest recorded figure for the last ten years. The only region to record a fall in the number moving up was Greater London.

Homeowners ready to take their second or subsequent move have found it easier lately, thanks to a combination of factors, including low mortgage rates, high employment and the equity they have accumulated in their first home.

Strong house price growth has led to many second-steppers being in the happy position of having substantial equity in their homes. This often means that they can afford to put down a bigger deposit on their next property, helping to get a better mortgage deal.

A LITTLE HELP FROM THE BANK OF MUM AND DAD

According to Lloyds, the difference in price between a typical first-time buyer's home and their next purchase is around £126,000. Their research found that on average they have £105,000 in equity from the sale of their first home, leaving a funding gap of around £21,000. It's at this point that parents and grandparents often step in and help.

MAKING THE NEXT MOVE

In order to get more living space, second-steppers are adopting a number of buying strategies. Many are moving out of larger towns and cities to areas that are potentially less fashionable, but are less expensive. Some are actively seeking homes that they can extend to get the living space they need.

Multigenerational homes are becoming more common too, with families pooling their resources to buy a home that can accommodate them all. This has the benefit of allowing older homeowners to release equity that they can then share with their children, and younger families get the space they need to grow. Homes with annexes or with potential to be split in two can work well, as both generations get to retain their privacy and independence.

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[1] Lloyds Bank, Jan 2018

EQUITY RELEASE TOPPED £3BN IN 2017

Many people approach retirement owning a family home and want to benefit from the cash tied up in what's probably their biggest asset. For some, the thought of downsizing and moving in later life to release cash is too daunting to contemplate. An equity release plan allows you to turn some of the capital value of your home into cash, without having to sell up and move away.

For those reaching retirement, equity release continues to be a way to top up their income, carry out home improvements, have a holiday of a lifetime, or pass on capital to other family members. In 2017, more than £3bn was released, according to figures from the Equity Release Council.

Lifetime mortgages – a type of equity release – have a seen a major surge in popularity amongst older homeowners, and have become the fastest-growing sector of the mortgage market.

Independent professional advice is essential; equity release isn't the right solution for everyone. Releasing cash from your home reduces the value of your estate and the amount of inheritance you leave, so you should discuss it with your family.

Think carefully before securing other debts against your home. Equity released from your home will be secured against it.

MORTGAGE ADVICE FOR THE SELF-EMPLOYED

The growth of what's been dubbed the 'gig' economy has led to more people joining the ranks of the self-employed and becoming small business owners. In the past, it could sometimes be more difficult for people who don't have set employment and salary patterns to get a mortgage. However, times are changing and more lenders are adjusting their lending criteria to meet the needs of this growing group of workers.

LENDING CRITERIA

As a first step, you'll need to make sure you have all your relevant financial documents to hand, and ensure that any information you provide in support of your application is clear and concise and suited to your lender's requirements.

The good news is that, by and large, mortgage lenders are less likely to be concerned by what you do for a living, or how often you do it. What they will want to see is evidence that you are able to make your monthly repayments in full and on time each month. They will generally ask for accounts for the last two years, and you'll need to be prepared to answer questions about any fluctuations or discrepancies in your level of income.

MAKING THE RIGHT MOVES

Having a good credit score will help. If you've had a financial hiccup in the past or don't have a credit history, you might want to acquire a credit card and make sure you make repayments in full and on time, to demonstrate you can manage your money.

If you have set up your business as a limited company, you may well take a small salary and pay yourself a dividend. You'll need to make sure that you provide details of both of these, so the combined total can be taken into consideration when assessing whether you can afford your monthly repayments.

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WHY MORTGAGE PROTECTION INSURANCE MAKES SENSE

Life can be expensive these days. The list of bills families have to pay is a long one and it soon adds up; there's the mortgage, council tax, food and energy bills for starters. And then there are often credit card bills, personal loans, transport costs, holidays and perhaps school fees too.

So, if your children, partner or other relatives depend on your income to cover the cost of paying the mortgage, then it makes financial sense to think about the protection and peace of mind that a policy could provide. Being able to claim on a policy could mean the difference between your family struggling to make ends meet and being financially secure. Despite this, many of us simply don't have any protection policies in place, which is sometimes hard to grasp when you think how vulnerable we all are to ill-health and accidents.

YOUR POLICY OPTIONS

There are various kinds of policies to choose from. Term insurance pays out when the policyholder dies within a set period of time. Term policies come in different forms, such as level term insurance, where the amount of cover remains constant throughout the policy. Decreasing term insurance, where the amount paid out reduces over the term, is often taken out alongside a repayment mortgage, with the sum assured reducing along with the outstanding mortgage debt.

Whole-of-life policies provide cover that lasts a lifetime. This type of policy doesn't normally have an end date, so premiums are generally paid until you die, at which point the policy will pay out (sometimes premiums end at a certain age, but the cover continues until death).

Some families might need the security of a regular income in the event of the death of a breadwinner; a family income policy which provides a monthly tax-free payment until the end of the agreed term is a good way of securing this.

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LATER LIFE MORTGAGE BORROWING HAS BECOME STANDARD PRACTICE FOR MANY

The mortgage landscape has changed in a number of fundamental ways over the last few years. Diverse factors such as the increase in house prices, students leaving university with larger debts, the trend towards couples buying their first homes and starting their families later in life, the ability to access pensions from age 55, are all having an impact on homeowners' borrowing requirements and repayment patterns.

For the majority of us, our mortgage represents the biggest single financial commitment we are likely to make. Repaying it has a major impact on how we manage our finances. Over the last few years, more mortgages have been granted for terms in excess of the standard 25 years, not least because stretching the monthly repayments over a longer period can make them more affordable (although this does mean that the borrower will be paying interest for longer).

With house ownership proving a challenge for many young buyers, the average age at which they take on their first mortgage is more likely to be in their 30s. This means that many more borrowers will find themselves repaying mortgage debt well into their retirement years.

The amount of mortgage debt held by over-65s is set to double to about £40bn by 2030, according to a May 2017 study supported by the Building Societies Association.

KEEPING YOUR MORTGAGE UNDER REVIEW

If you are in the situation where your mortgage is likely to run on into your retirement, keep it under review. There may come a point where you may want to consider shortening the mortgage term if your finances mean that you can afford higher repayments. Alternatively, you might want to consider making overpayments to reduce the amount of mortgage outstanding. Getting good advice will help ensure that you manage your finances effectively, especially later in life.

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HOW TO REMORTGAGE YOUR HOME

With interest rates currently low, many borrowers have found their monthly repayments affordable and have chosen to stick with their existing mortgage deal. However, as the monthly mortgage repayment is often a family's major outgoing, it makes good financial sense to review your mortgage on a regular basis, as you could save yourself money by remortgaging.

If it's been a while since you last reviewed your mortgage, this might be a good time to see what's currently available in the market.

THE BENEFITS OF GETTING A NEW DEAL

There are several reasons why people choose to remortgage, it's often to:

- reduce their monthly repayments by getting a cheaper rate
- release some of the value built up in their property to spend on home improvements or to pay off debts
- reduce their mortgage term – by finding a cheaper deal and keeping the same level of repayments, they become mortgage-free sooner.

GETTING A GOOD RATE

If your current fixed-rate, tracker or discount deal is about to end or has already ended, it's usually the case that you'll be moved to your lender's Standard Variable Rate (SVR). The SVR is the main mortgage rate charged by the lender – the long-term rate of interest that borrowers are charged once their fixed, introductory discounted or tracker period comes to an end. The SVR can be subject to change by the lender, so, if you don't do anything, you could be vulnerable to interest rate rises when they come. You could potentially save money by moving your mortgage to a more attractive rate, either with your existing lender or a different one.

TAKE GOOD ADVICE

Your first step should be to get all your mortgage paperwork together, so that you

can see what you're paying now, and also look to see what early repayment charges your current lender might charge you for moving. We can help you by reviewing your current mortgage and helping you decide if remortgaging will benefit you, and if so, which deal might be a cost-effective option for your circumstances.

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FIRST-TIME BUYERS USE STAMP DUTY SAVINGS TO CUT MORTGAGE COSTS

Low mortgage rates, high levels of employment and government schemes, such as Help to Buy, are all helping first-time buyers enter the housing market.

The recent abolition of Stamp Duty for a majority of first-time buyers looks set to provide additional help by reducing the upfront costs associated with making a first home purchase.

STAMP DUTY CHANGES

Except in Scotland, Stamp Duty was abolished last November for first-time buyers on homes worth up to £300,000. Particularly to help those buying in very high-priced areas such as London, a stamp-duty exemption is in place on the first £300,000 purchase price on properties valued up to £500,000; the additional amount up to £200,000 will incur 5% duty.

From April this year, property Stamp Duty matters in Wales will, as in Scotland, be devolved. The above concession will then cease to apply in Wales, but the new Land Transaction Tax there will have a £180,000 threshold for all purchases, not just those of first-time buyers. The Scottish Government has proposed a higher £175,000 (from £145,000) Land and Buildings Transaction Tax threshold for first-time purchases as from 2018-19.

The government's decision in November has had a mixed reception. Many believe that it won't have a material impact, and some have warned that it will drive up house prices, leading to first-timers paying more for their houses than they are likely to save. A spokesman from the Number 10 press office defended the change in Stamp Duty, claiming in early January that 16,000 first-time buyers had already made a saving of up to £5,000 as a result of the cut, and estimated that more than 1m more would stand to benefit over the next five years. They also said that 80% of all first-time buyers will pay no Stamp Duty under the rule change.

Those purchasing a £300,000 property are set to save the most, benefiting by £5,000. First-time buyers of more costly homes up to £500,000 see their Stamp Duty lowered by £5,000. However, there are also substantial worthwhile savings to be made on less expensive homes. Purchasing a property worth £208,000, the average price paid by a first-time buyer, would previously have given rise to a Stamp Duty payment of £1,660, but a first-time buyer will now be able to save this amount.

MORE HOUSING STARTS NEEDED

Some commentators have been quick to point out that the move doesn't tackle the major issue which is the UK's chronic housing shortage. The government has announced a series of measures designed to fix what they see as *"the broken housing market"*, and freely admits that at least 300,000 new homes are needed every year to keep pace with demand.

AIRBNB – IMPLICATIONS FOR HOME INSURANCE

Airbnb is an amazing business success story – there are now more than four million homes listed around the world. But homeowners who list their property on Airbnb or similar sites need to think carefully about their insurance position, as when they have a tenant in their property, they may not be insured under the terms of their cover.

Typical contents insurance won't necessarily pay out if you make a claim on damage caused while your property was being let out. So, if you're already a host on Airbnb, or thinking of joining the network, then you will need a comprehensive insurance policy that specifically allows you to rent out your property for periods of time, or covers you if you have tenants who sublet.

Airbnb do provide what they call a host guarantee, but make it clear that it isn't an insurance policy and they recommend that you take out your own separate cover. There are now new top-up policies on the market to protect hosts. They provide cover for homeowners, tenants and landlords who let rooms, annexes or whole houses, and some allow you to increase your cover on a short-term basis.

In addition it is vital that homeowners considering letting a room or property in this way, seek consent from their mortgage lender first, restrictions may apply.

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