

Spring 2007

# the mortgage

The mortgage bulletin from A J Hird Insurance Consultants



Whether you want to consolidate existing credit card debt or secure finance for a specific item such as a new kitchen, a secured loan may be an option for you.

» We all have debts to manage and as long as our debt is affordable, it shouldn't be a problem. But it may be sensible to start thinking about consolidating expensive credit card and store card debt into a cheaper form of borrowing such as a **secured loan**.

Average household debt in the UK stood at £8,791 (excluding mortgages), according to Credit Action's February 2007 figures. So, many of us are in the same boat - trying to juggle finances in the best way possible.

And a secured loan - which is a second charge on your home - can also be a useful option if your mortgage lender won't extend further credit or if you face an early repayment charge, should you alter your existing mortgage.

If this is the case, it can be prudent to keep your existing mortgage arrangements in place and take out a secured loan.

We've highlighted some areas where you may benefit from a secured loan:

- If you want to consolidate credit and store card debt into one manageable loan and at a lower cost. Although

## Get started on YOUR finances

taking out a long term loan can mean you end up paying more than managing your expenditure and paying off your credit cards in the short term.

- If you faced an early repayment charge, should you try to remortgage.
- If your mortgage lender won't allow you to increase your mortgage, but your income would support a further loan.
- If you rapidly need funds, as a secured loan may have a quicker turnaround time than a mortgage.

And, of course, it also represents a disciplined way to pay off your debts, as you'll agree to a set payment period.

The actual rate you are charged for a secured loan will depend on a number of factors, including the amount you wish to borrow, compared to the value of your property. So check with us first, so that we can advise you on the best course of action for your own particular situation.

**THINK CAREFULLY BEFORE SECURING OTHER DEBTS AGAINST YOUR HOME. YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE OR ANY OTHER DEBT SECURED ON IT.**

The Financial Services Authority does not regulate Secured Loans.

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**Welcome....** to this newsletter, which covers some of the key issues of the moment that affect mortgages and mortgage-related products - and sets out how it **may help you**. In this issue we look at **Secured Loans**, cover the **Outlook for 2007**, highlight some top **Buy-to-Let** tips, set out some options that may help **First-time buyers** and end with a look at the **Overseas Property** market.

■ A J Hird Insurance Consultants is authorised and regulated by the Financial Services Authority. FSA no. 402614.

■ **Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on your mortgage.**

# OUTLOOK FOR 2007

## INTEREST RATE CALCULATOR

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

% Interest rate	Interest-only* Payment (£)	Repayment Payment (£)
4.00	3.33	5.27
4.25	3.55	5.41
4.50	3.75	5.55
4.75	3.96	5.70
5.00	4.17	5.84
5.25	4.38	5.99
5.50	4.59	6.14
5.75	4.80	6.29
6.00	5.00	6.44
6.25	5.21	6.59
6.50	5.42	6.75
6.75	5.63	6.90
7.00	5.84	7.06
7.25	6.05	7.22
7.50	6.25	7.38

(Source: Halifax, December 2006)

\* Excludes any payment to a savings scheme.

The figures shown here are intended as a guide only. The actual amounts that you may have to pay may be more or less than the amounts shown.

Here's how to use the calculator:  
**A £100,000 mortgage over 25 years, charged at a 5.50% interest rate would cost 100 x £6.14 (for repayment) = £614 per month.**

### House prices

The average UK house price stands at around £173,225, that's a £14,747 increase in a year - equivalent to a £40 rise per day!

(Source: Nationwide, January 2007)

For 2007, Nationwide expects London and the South East, along with Scotland and Northern Ireland to show the biggest percentage increases.

(Source: Nationwide, December 2006)

And with the recent interest rate movements, Nationwide expects house price growth for 2007 to now sit at the lower end of their 5-8 per cent forecast. Halifax thinks it will be 4 per cent at the end of the year.

Nationwide feels that whilst interest

rates affect house prices, it is important not to overstate their impact. A number of other supporting factors remain in place. Labour market developments, such as strong employment growth, low unemployment and steady growth of earnings, have now supported the housing market for a number of years and will continue to do so this year. In addition, the level of house-building is still too low relative to even the Government's conservative estimates of the expected growth in household numbers. This adds to upward pressure on prices. Of course, Nationwide accepts that higher rates will reduce new demand to some extent.

(Sources: Nationwide & Halifax, January 2007)

# Strategic Buy-to-Let move

The concept of buy-to-let mortgages is now over 10 years-old, and from just two dozen products on offer a decade back, there are now around 2,000 out there!

(Source: moneyfacts.co.uk, Aug and Dec 2006)

» The growth of the market has resulted in over 750,000 outstanding buy-to-let mortgages in the UK. This accounts for 8.3 per cent of the value of all outstanding UK mortgage lending.

(Source: Council of Mortgage Lenders, June 2006)

And for 2007, the buy-to-let market is expected to remain strong, as net immigration, later first-time buyer purchases and the trend towards smaller households continue to drive the market.

Malcolm Harrison, spokesman for the Association of Residential Letting Agents, says: "ARLA surveys show that consistent average gross yields are 4.9-5.5 per cent, whereas the net yield could be far lower, depending on the landlord's outgoings."

"But that's not what landlords buy for. Our surveys show that over 50 per cent of landlords are buying for capital appreciation. Only 5 per cent are doing it for the rental income."

The gross yield on a rented property is the rental income as a percentage of the house price on purchase. So a £200,000 property generating an annual rental income of £10,000, has a gross yield of 5 per cent. But if annual costs are £5,000 a year, the net yield falls to 2.5 per cent.

If you want to get involved - or are looking at purchasing further properties - we can help you.

**Some buy-to-let mortgages are not regulated by the Financial Services Authority.**

### Top tips

- Research where you intend to buy. Look for areas of high economic activity, but where property prices have not risen as much as elsewhere.
- Talk to letting agents about the local market and how much rent you could expect on different properties.
- An interest-only mortgage is the most tax efficient route, as you can offset interest against tax.
- Lenders will normally expect rental income to be at least 130 per cent of the mortgage repayments.
- You will normally only be able to borrow up to 80-85 per cent of the property's value.
- Don't overstretch yourself. Keep an emergency fund of three months' rental income to pay the bills if the property is empty.
- Take additional advice from an accountant.
- Finally, buy a property with strong rental potential, and not what you find attractive yourself!

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



# THE ROUTES... for First-Time buyers

First-time buyers are having a tough time. Not only has the average property price for first-time buyers risen to £141,832 in the last quarter of 2006 (up 10.7 per cent in a year), but income multiples have also soared to reach their highest level ever - at 3.31 times the average income.

*(Sources: Nationwide, January 2007 and Council of Mortgage Lenders [CML], December 2006)*

This means that the average new mortgage for a first-time buyer (FTB) is around £115,500 and their average age is now 29. *(Source: CML, Dec. 2006)*

## Borrowing options

Research by unbiased.co.uk has revealed that almost four million parents (38 per cent) across Britain have either stumped up cash to help their children with a property purchase or intend to do so in the future.

And some parents may even act as a mortgage guarantor, whereby the

lender takes the parents' income into account when deciding how much to lend.

That's one route, and there are other options available, such as the following:

- The good news is that lenders are bending over backwards to help first-time buyers, by stretching their lending multiples to up to five times their income or up to 125 per cent of loan to value.

Providing the FTB has a steady job, with good prospects, their income

could increase markedly over time. But the FTB should be wary of borrowing high income multiples; there are risks, so advice is essential.

- The FTB may be able to club together with a group of friends to buy a property and share the cost of the mortgage. Alternatively, if they buy alone, they may be able to rent out rooms in the property to help pay the mortgage.

- Shared equity mortgages are another route, whereby the FTB purchases half a property and a housing association purchases the other half. The portion not owned by the FTB is rented back to them, and at a later stage they have the right to buy the housing association's half.

**The options mentioned above can be quite complex, so it makes sense to get in touch to find out more.**

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

## SHOP AROUND

## Get protected!

Whatever type of borrowing you have, whether a mortgage or a personal loan, it's a good idea to have some life cover to pay off these debts if you die.

There are various forms of life cover, and they can meet a wide range of needs. For example, you may only want life cover to be in place whilst you're paying off your mortgage.

Whatever your needs, we can help identify the best course of action for you.

Around 2.9 million mortgages (about 25 per cent of the UK's total 11.6m outstanding mortgages) are on the lender's standard variable rate (SVR).

Whilst borrowers tend not to sign up for a lender's SVR directly, it's surprising how many are prepared to leave their borrowing at this rate when their initial fixed or discounted deal expires.

This means that millions of households might be failing to obtain the best possible mortgage rates, either out of lack of knowledge or inertia.

For example, many people think that remortgaging is not worth the hassle or the costs, but that need not be the case. And we can hold your hand throughout the process, and ensure that it's not too much trouble for you.

And surely it's worth taking a look at what's on offer. Of course, there may be additional costs attributable to remortgaging. So whatever your needs, do get in touch.

Low cost flights, relatively easy credit and a plentiful supply of fairly inexpensive property are driving a boom in overseas property purchase.

# Make the dream a reality!

£135,000



Bulgaria

£85,000



Italy

£53,000



Spain

» Having your own place abroad can be a joy, whether you are buying alone or with a group of friends. A more relaxed lifestyle, a better climate, kitted out to suit your needs and the familiarity of the surroundings are just some of the pleasures of having a home of your own abroad.

Research by Grant Thornton shows that the number of overseas properties owned by UK households has almost trebled from 102,000 in 1995 to an estimated 300,000 in 2006.

This means that around 2 per cent of the UK population owns a property overseas. Forty per cent of respondents to the survey cited investment as the main reason for purchasing overseas, while 38 per cent wanted a holiday or retirement home.

And, into the future, the research projected that between 1.5-2m UK households will own an overseas property by 2025 - that would equate to 10 per cent of all UK property owners!

(Source: Grant Thornton, November 2006 survey)

## Destinations

Traditionally, the favourite destinations for Brits buying abroad have been France, Spain, Italy and the US, but a good number of buyers are now looking at other locations such as Eastern Europe (eg Bulgaria and Hungary), Dubai, Morocco and South Africa.

The easiest way to fund an overseas purchase is to remortgage an existing UK property, providing your lender agrees to this. Alternatively, you can obtain a loan on your property in a foreign currency.

Whichever path you decide to take, we are here to help make the most of the various options available to you.

**Changes in the exchange rate may increase the Sterling equivalent of your debt.**

**Mortgages on overseas properties are not regulated by the Financial Services Authority.**

■ We treat all the information provided by you with the utmost care and security. Any details you give will remain confidential and will only be disclosed at or with your consent, where we are legally obliged to do so or where we have a duty to the public to disclose that information. The information collected by us will be used only for the purposes stated by us. Where we use your personal details to communicate to you information about other products and services we will give you the opportunity to tell us that you do not wish for it to be used in such a manner. Please do not provide your details to us if you do not consent to the above.

## 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     Secured loans     Buy-to-let  
 First-time buyer     Remortgaging     Life cover  
 Buying a second home     Insurance products     Protection products  
 General mortgage information

Other (please specify) \_\_\_\_\_

Please do not send any further issues

Name (Mr/Mrs/Ms) \_\_\_\_\_

Address \_\_\_\_\_

Email \_\_\_\_\_

Tel (+ best time to call) \_\_\_\_\_ Signature \_\_\_\_\_

Please put the coupon in an envelope and post to:  
**A J Hird Insurance Consultants, 102 Main Street,  
 Addingham, Ilkley, West Yorkshire LS29 0NS**

Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on your mortgage.

We are Independent and, for arranging a mortgage, we offer our clients the choice of either paying a fee (typically 0.5% of the mortgage - minimum fee of £400), or receiving our payment direct from the lender in the form of commission.

■ The contents of this newsletter are believed to be correct at the date of publication (March 2007).

■ 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.