The Mortgage Factory

MORTGAGEMATTERS

ISSUE 5

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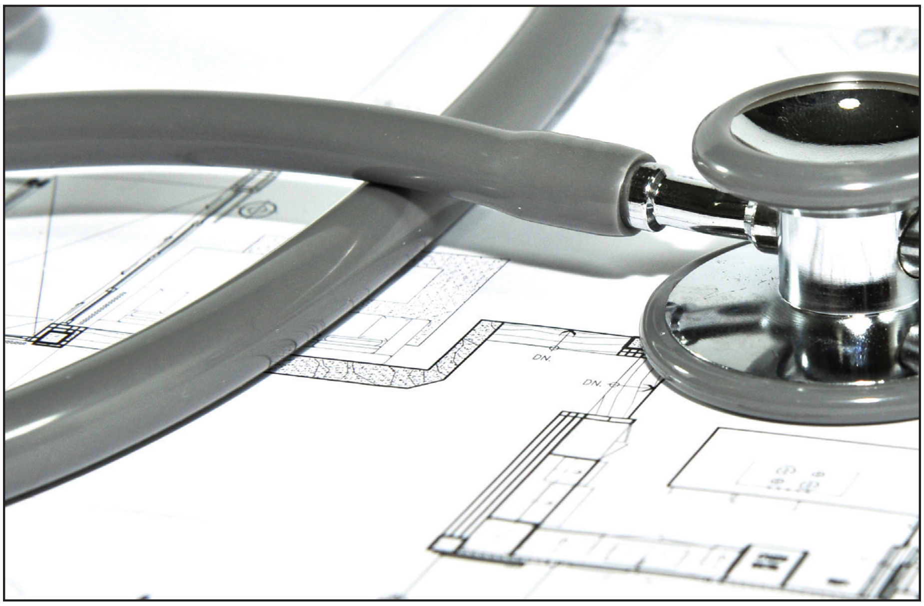
MMR STRESS TESTING

WHAT THIS MEANS FOR MORTGAGE PROSPECTS



Lenders want to satisfy themselves that they have a full picture of a borrower's financial position

In April 2014, the Financial Conduct Authority (FCA) introduced a number of changes under its Mortgage Market Review, a set of proposals designed to prevent a return to the high levels of risky mortgage lending last seen before the housing bubble burst in 2008.

What lenders want to know about you

Basically, lenders want to satisfy themselves that they have a full picture of a borrower's financial position before they can commit to lending the money. Given that buying a house is for most people the biggest financial commitment they make in their lifetime, lenders need to be sure that the mortgage isn't going to put undue financial pressure on the borrower if and when interest rates rise.

The key areas of interest are:

- The size of the loan you want to take out
- How much you have available for a deposit
- Your employment status and income from all sources
- Your credit rating
- Your total outgoings
- What existing debt you have

Choosing the right mortgage

Finding the right mortgage is not just about securing the cheapest deal around. A financial adviser or mortgage broker can help you find the best mortgage to suit your financial circumstances. They have in-depth knowledge of what is available in the market and, because they deal with lenders on a day-to-day basis, know the mortgage criteria that each applies. They can bring this experience to bear when giving you advice and helping you prepare your application.

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

PEACE OF MIND FOR ALL THAT YOU HOLD DEAR

Life insurance can do more than just repay your mortgage

Life can be expensive these days. The list of bills families have to pay is a long one and it 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 these bills, then it makes financial sense to think about the protection and peace of mind that life assurance can provide in the event of your death. Being able to claim on a life insurance 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 life insurance cover in place, which is sometimes hard to fathom when you think of how vulnerable we all are to accidents and ill-health.

There are various kinds of policies to choose from, so it's important to discuss the options with your adviser. 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 paid until you die, at which point the policy will pay out (sometimes premiums end at a certain age, say 90, but cover continues until later 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.

Many people opt to take out critical illness insurance at the same time that they take out life cover. Critical illness cover is designed to pay out a tax-free lump sum in the event that you are diagnosed with a serious illness (as defined in the policy), such as cancer, stroke or heart attack or on incapacity following an accident.

The cost of life assurance is not as expensive as everyone seems to think. Monthly life premiums have come down in cost over the last few years, and you may be surprised to learn that cover can start from around the same amount as you'd pay for a couple of DVDs. Don't wait too long to sign up for life insurance; the longer you leave it, the older you will be, and the more the premiums will cost.

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CHEAP BUT NOT CHEERFUL?

Why it's important to look beyond price

When it comes to buying buildings and contents insurance cover, the range of policies on offer in the market can seem bewildering. That's where the guidance and market knowledge provided by your adviser or broker can help you navigate around the various options. One of the tools that they can use when researching the right policy for you is the Defaqto rating system.

Whilst you may have heard the name Defaqto mentioned in connection with insurance policies, you may not know that this company has created a new way of assessing policies or what their star rating system means for consumers.

Defaqto is a financial research company specialising in rating, comparing and analysing financial products and funds. The aim is to help buyers make better, more informed, decisions. One of the ways this is done is through a star rating system. This provides an independent, unbiased mechanism to help people understand where a product sits in the market, and is based on an analysis of the features and benefits it offers.

What do the Star Ratings mean?

Each product is awarded a rating of 1 to 5, based on the quality and comprehensiveness of the features it offers. Defaqto Star Ratings range from 1 Star to 5 Star. These Star Ratings indicate the following general qualities:

1 Star - provides a minimum level of features.

2 Star - offers a fundamental level of features, with a few more benefits.

3 Star - provides standard levels of features with a fair range of additional benefits.

4 Star - offers a high level of cover with a good range of features and benefits.

5 Star - provides quality cover and includes a comprehensive range of features and benefits.

The star system looks to reflect the quality of a product, and gives consumers expectations about the cover on offer and the knowledge that a 4 or 5 star product is likely to be amongst the best in its class. Many people would prefer to pay a few extra pounds to get a policy with more comprehensive cover.

Whilst a Defaqto rating is a useful comparison tool, it doesn't represent a recommendation to buy a specific policy. As your adviser or broker knows, the key is to focus on features, not just price, when comparing products to ensure you buy an appropriate product for your particular circumstances.

It's as important, as always, to make sure that the cover and the terms and conditions of any product you plan to buy meet your specific needs; and that's where professional experience and understanding of your particular circumstances come into play.

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PROPERTY AND MORTGAGE REVIEW

At the beginning of Q3 2014 the average house price in England and Wales was sitting at £172,011. This compares with the peak of £181,466 achieved in November 2007.

These figures, released by The Land Registry (TLR) in July this year, show an annual price growth of 6.4% and that individual property sale prices recorded by TLR ranged from £11,500 to £20,150,000.

Interestingly, the number of properties sold for over £1 million increased by 39%, compared with the same period last year.

However, the latest English Housing Survey (2012-2013) recorded the lowest house-building start rates since 1923. This confirms the fact that there is just not enough housing supply in the marketplace to meet the needs of our ever-growing population.

The government is starting to address these issues by combining housing and planning into one ministerial department and further increasing its clout by promoting its reporting line from an under-secretary to a Minister of State.

At this time, uppermost in the minds of mortgage borrowers is the future trend in interest rates. Since 2009, the crucial base rate set by the Bank of England (BoE), has been at the historical low of 0.5%, but given the recent strength of the UK economy and the reduction in the unemployment rate, many economic pundits predict an increase to be announced either by Q4 2014 or Q1 2015. Such a rise in interest rates, albeit by a small margin, will have a pronounced effect on home-owners' cash-flows and is one of the reasons the FCA has introduced its Mortgage Market Review (MMR), which has ramped up the qualification criteria lenders must apply to new borrowers, to ensure that their income and, more importantly their net-spendable income, can cope with any such interest rate shock.

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To reinforce this, at the time of going to press in September, The Council of Mortgage Lenders (CML), who represents the majority of lenders in the market, recorded that £17.5 billion was lent to potential home-owners in June. This was a 4% increase from the previous month and 17% higher than the same month last year.

As for affordability, London continued to be the most expensive region price wise, but with average wages there at £39,920 and average house prices at £400,000, prices are only 10 times wages. However, other very desirable rural locations beat this figure, with South Buckinghamshire house prices recording a ratio of 20 times wages and the Cotswolds 19 times wages.