Autumn 2009

the mortgage

The mortgage bulletin from Farrell Independent Ltd

FARRELL INDEPENDENT LTD

MORTGAGE & PROTECTION SPECIALISTS

Fixed or Variable?

Glimmers of hope are appearing on the horizon, with a slow-down in the annual rate of decline for house prices and the banks starting to lend more freely.

» So how will this impact upon mortgage interest rates? With the Bank of England's Base Rate standing at 0.5% (at the time of writing), this has meant that many people have seen their **tracker** rates reduce markedly since last Autumn. Whilst other borrowers may have come off **fixed** or tracker deals and reverted onto attractive **standard variable rates** (SVRs).

With lenders recently requiring far larger deposits than in the past for the better deals, this has resulted in a number of borrowers having insufficient equity to give them access to the full range of options. But the tide does seem to be turning here too - with the return of an increasing number of higher loan-to-value (LTV) mortgage products of 75% plus.

(Source: Moneyfacts, June 2009)

Will interest rates stay put?

If everything stayed as it was, then most borrowers would be sitting pretty. But, as events since last Autumn have shown, with the Base Rate dropping from 5% in September '08 to the current level of 0.5% (at the time of writing), there is broadly only one way for rates to go - and that's up.

It's just a question of when, by how much and how quickly. And there are a number of reasons why the Bank of England may want to increase the Base Rate across the next couple of years. It could be to curb inflationary pressures, to strengthen the pound, or maybe even to improve the profitability of the financial institutions, ahead of selling off Government shareholdings.

Another issue to consider is the widening gap between both the Base Rate (and the LIBOR rate) and the rates offered by the lenders to borrowers. The gap is partly to enable lenders to offer attractive rates to savers, but lenders are also widening the margin to increase profits. In the current climate it may not be too problematic for borrowers, but if the Base Rate returned to the 5% of last Autumn and margins remained the same - SVRs would be charged at 7% and above!

Decisions decisions...

Whether you fix or go for a variable rate is the big question right now. Your current

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Farrell Independent Ltd
5 Northwood Road
Carshalton Beeches
Surrey SM5 3JA

Tel: 020 8669 9938
Fax: 020 8669 9737
Email: enquiries@filmortgages.co.uk
Web: www.filmortgages.co.uk

Welcome.... to this newsletter, which covers what we believe are some of the key issues of the moment that affect the mortgage marketplace.

■ Farrell Independent Ltd (Registered office: 7-11 Woodcote Rd, Wallington, Surrey SM6 0LH) is an Appointed Representative of Pink Home Loans. Pink Home Loans is a trading name of Advance Mortgage Funding Limited which is authorised and regulated by the Financial Services Authority.

■ The Financial Services Authority does not regulate mortgages on non-UK property and some forms of secured loans, debt consolidation, commercial mortgages or buy-to-let mortgages.

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

You know it's IMPORTANT to make sure your loved ones are protected should you suffer an untimely **death** - but have you done anything about it? If not.... read on....

CONSIDER THE FOLLOWING; as life expectancy has increased, life cover rates have dropped markedly - so even in the current difficult economic conditions, this vital cover may be affordable for you.

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 £12.67/month today against around £17.55/month, five years ago! And that disregards inflation!

(Source: Moneyfacts; comparison of the average premium from over 25 firms; June 2009 vs. June 2004)

Term assurance is the cheapest form of life cover as it's designed to cover you for a specific period only - such as the duration of your mortgage. But once the term expires, there's no payout if you die thereafter.

The last thing you want is that they can't receive your life cover payout because, for example, you failed to mention a pre-existing medical condition.

You also need to consider that if you die, any life assurance policy you own will normally form part of your estate and could be hit by inheritance tax. In many cases you can avoid this by writing the policy in trust. By so doing, the proceeds of the policy can be paid directly to your dependents.

Do talk to us to find out more.

The Financial Services Authority does not regulate Taxation and Trust advice.

The next step

Life cover, like other protection policies will be contingent on certain terms, conditions and exclusions applying - so you must be honest when completing the forms. This is something we can help with to ensure that your dependants are less likely to face any problems should there be a claim against the policy.

What's missing?

■ **As with all insurance policies, terms, conditions and exclusions will apply**

Whilst the Press may want you to believe otherwise, not all small businesses are coming unstuck in the current recession.

It's all MINE

In fact, there will be a whole raft of firms that have money in the bank, are doing relatively ok - and are on the lookout for recession-hit opportunities. One of these may be to **purchase their own Commercial Property.**

In the current climate, you may be able to buy at an excellent price, enabling you to throw off the shackles of having a commercial landlord and perhaps even see a return on the money you previously 'wasted' on your rent or lease.

Not only can renting from a commercial landlord seem like money down the drain, but also there may be substantial tax breaks if you buy a commercial property within certain types of pension scheme (although you will need professional pensions advice if you consider this option).

So why not compare what you'd be paying on a mortgage in relation to your current landlord costs (of course, don't forget that you'll probably need to provide a decent-sized deposit and take into account any purchase and renovation costs).

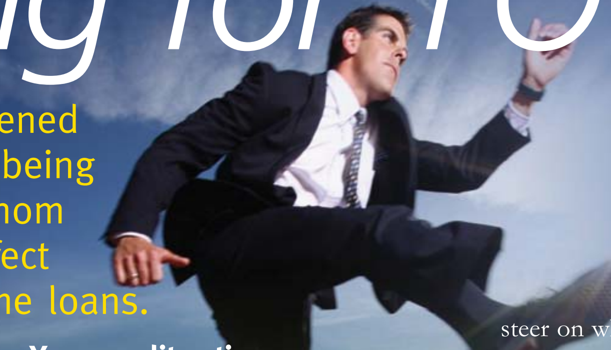
Additionally, you may even be able to lower your monthly payments, if you are able to sub-let a portion of the property to another business (should your lender agree).

And since the onset of the credit crunch it has become harder to obtain funding, but there are still a number of lenders, in addition to the normal High Street banks, which may be willing to lend. So talk to us and we can look at all avenues for you.

The Financial Services Authority does not regulate most Commercial mortgages.

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

Working for YOU...



With lenders having tightened their lending criteria and being more discerning about whom they lend to, this may affect your ability to access some loans.

That's why it's important to seek out professional advice to help you through the current lending environment, whatever your financial needs.

We have research facilities in place that are constantly updated to reflect developments in this ever-changing market-place and this - together with our market knowledge - enables us to search for the most suitable deals on offer to meet your own particular financial needs.

Once we establish your requirements, we can help guide you every step of the way by liaising with all chains in the mortgage process, and hopefully reducing the amount of time you may need to devote to your application.

Your credit rating

Another benefit of using us is that we may be able to help protect your all-important credit rating. Each time you apply for credit, this may be recorded on the files held by the credit reference agencies. And could result in a downgraded rating for you, as the system may (probably mistakenly) think you are desperate for funds - which could 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, ensuring that it's less likely that your rating would be affected.

Beyond mortgages...

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

So do get in touch with us if you have any questions or require assistance.

Bridge that gap

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.

BAG A BARGAIN!

In some respects 'below market value' (BMV) is a slight misnomer as you'd be setting the price for it - so that **IS** the current value of that property. But if you feel you've done your homework and secured a 'good deal' on a property that can either be a future home, one that you can quickly 'beautify' and sell on, or as a potential buy-to-let investment, then it may be the route for you.

With 12,800 repossessions in the first quarter of this year (up 50% on the comparable quarter in 2008)*, in addition to some people needing to sell quickly, there will be a good number of opportunities in estate agent windows and auction houses up and down the country.

*(*Source: Council of Mortgage Lenders, May 2009)*

Whilst estate agents are the obvious route, auction houses give you another option, as that's an easy and quick way for lenders to shift repossessed properties. However, buying property at auction is not for the fainthearted. For example, you should get a full survey done, but if your bid fails, you will have wasted your money. Either way, you should always try to obtain as much information about the property in advance, unless you are prepared for possible nasty shocks.

And once the gavel comes down in your favour, the property is yours and you have to immediately stump up usually 10% of the purchase price (and generally a buyer's fee too). You then have around 28 days to complete the conveyancing and pay the balance in full.

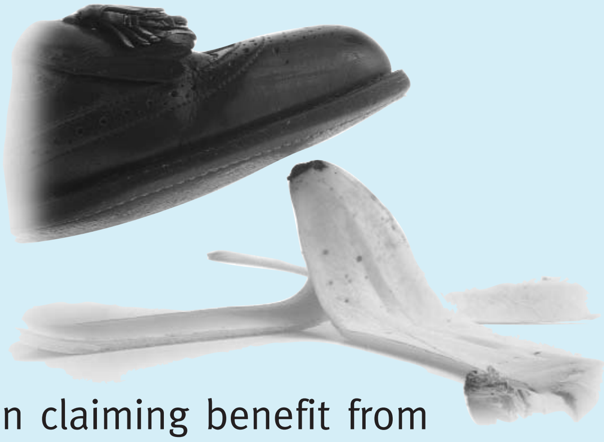
So if you are considering buying at auction or seen what you believe to be a BMV property via an estate agent, be sure to give us a call, so that we can look at the various financing options available to you.

The Financial Services Authority does not regulate most Buy-to-Let mortgages.

There may be initial signs that property price falls are getting 'less bad'. However, the current buzzwords are **'below market value',** relating to some of the properties out there.

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

Protect YOUR INCOME!



With over 2.6 million people in Great Britain claiming benefit from the State for incapacity*, the likelihood of this happening to you may be greater than you think. *(*Source: Department for Work and Pensions website, May 2009)*

One way of protecting yourself against being off work long-term from an illness or accidental injury is to take out an **Income Protection** policy.

Additionally, fears of redundancy are fuelling the surge in sales of Income Protection, as some policies could also include unemployment cover as a bolt-on.

Income Protection is designed to pay out a tax-free monthly sum in the event that you are unable to work due to illness or accidental injury, or (if you have the additional cover) become unemployed.

You decide how much cover you require in order to continue paying your bills and the policy usually pays out until you return to work, or retire. Of course, there is a maximum amount of cover you can take out. Broadly, it's around 50% of your gross salary, although the exact amount does vary from insurer to insurer.

Do your sums to lessen your premiums

You must factor into any planning what you may receive from your employer, should you suffer an illness or injury. Whilst this may not match your salary over time - you should deduct this amount to help reduce the amount of cover required against your policy.

And Income Protection generally covers - unlike some other policies - two of the main reasons for taking time off work; stress and back pain.

With Income Protection you are also individually assessed (rather than one size fits all), so people at low risk (ie in good health, relatively young and working in an office) won't be subsidising the rest.

It's not suitable for all

Be warned, if you know or suspect that you are going to be made redundant (and take out this cover as a bolt-on), then this would invalidate any claims you subsequently make. The same may also apply to any pre-existing medical conditions or illnesses.

And you may also face problems in taking out this policy if you are self-employed, a temporary or contract worker, have been with your current employer less than six months, or are over 65.

That's why it's important to talk to us to establish the most suitable 'protection' policy for you - because whilst Income Protection can be an excellent product for some, there are also other policies out there to possibly meet your needs.

As with all insurance policies, terms, conditions and exclusions will apply.

➔ **(contd from page 1)**

choices could be to stay with your existing deal, remain on (or revert to) the SVR, seek out another variable tracker offering, or take the view that the current crop of fixed rates are fairly tempting.

And an increasing number of borrowers are now opting for the longer term fixed rate deals. In fact, if you want the certainty of knowing what your home loan payments will be over the longer term, the 5-10 year fixes may be the option for you.

Of course, you need to be aware of any 'early repayment charges' should your existing lifestyle change markedly, and longer term fixes tend to have a slightly higher interest rate. But on the upside, your set-up fees would cover a longer loan period and most mortgages are portable these days, should you move home.

Also, if you think some of the current deals on offer are quite appealing (fixed or variable tracker), then did you know that if you are coming towards the end of your loan term, the current (or an alternative) lender may be willing to set aside a new mortgage for you three months prior to you needing it.

Lots to digest, so do get in touch to discuss the best options for you.

■ We cover mortgages, insurance and protection products along with a number of other financial areas, so do contact us if you'd like to discuss your financial needs:
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There may be a fee for mortgage advice. The precise amount will depend on your circumstances, but we estimate that it will be £250 but may range from £0 - £250.

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