Issue 14 Winter 2016

Viewpoint

Your latest newsletter from Compass Personal Finance

compass PERSONAL FINANCE

Are you considering remortgaging?

With continuing uncertainty over the future of interest rates, you may be considering remortgaging to a lower rate of interest to save money.

But before you're tempted to a new lender offering an attractive introductory rate, it's worth considering the bigger picture.

Should I stay or should I go?

Moving to a new deal could save you money. However, if you change your mortgage before the end of your current deal, you may have to pay an early repayment charge. It's also worth factoring in legal, valuation and administration costs that may be associated with signing up to a new mortgage deal.

In some circumstances, you may find that over the long term, the costs of switching outweigh the costs of taking on what looks like a better deal.

Tougher lending rules

As part of the Mortgage Market Review (MMR) in April 2014, the Financial Conduct Authority introduced new rules around mortgage lending. For instance, the lender must now take greater steps to ensure you can afford your mortgage not only now, but in the future if interest rates were to rise.

That means if you took out your current mortgage a few years ago, you may be asked for more information this time around. This may include details of how much you typically spend on things like travel, clothing, entertainment and childcare.

Changing the type of deal

When looking at new deals, you may want to consider a different type of mortgage arrangement to your current deal.

For instance, you may decide that you would benefit from the option of payment holidays, or a more flexible repayment arrangement. If you have significant savings, you may want to switch to an offset or current account mortgage, where you use your savings to reduce the proportion of your loan on which you pay interest.

Updating your protection

When changing your mortgage, remember to review your protection arrangements as part of the process. This could protect you financially if you become unable to meet your monthly repayments, should the unexpected happen.

Reviewing your protection needs is all the more important if you don't have cover in place already, or if your circumstances have changed since you last reviewed your cover.

With so many areas to consider, it makes sense to seek professional mortgage advice. We can help you weigh up the financial benefits of remortgaging, choose the most appropriate deal, handle your mortgage application from start to finish, and ensure your loan is properly protected.

If you'd like help choosing the right mortgage, please get in touch.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

For this service a fee of £350 or 0.5% of the loan amount if greater is payable on completion. Typically this will be £350.

COPEN1103 Exp. 14/09/16

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Is there a housing bubble – and is it about to pop?

The news that average house prices in London have hit almost £500,000 has, unsurprisingly, led to talk of house price bubbles and potential crashes. But how worried should we be?

According to Land Registry, London saw an increase of 9.6% in house prices in the year to September - a rate few were predicting at the start of the year.

However, the picture for the UK as a whole is a little more subdued, with prices having risen by a more modest 5.3% in the previous 12 months, bringing the average UK house price to £186,553.

Rates remain steady

What happens next on house prices is hard to predict, as there are so many variables at work.

Although regulation is influencing the amount lenders are able to lend, competition amongst the major lenders is intensifying. And, whilst it seems inevitable that mortgage interest rates will eventually rise from recent historic lows, there are few signs to suggest any imminent changes.

Demand outstripping supply

Employment rates are at their strongest since records began and earnings are, for the first time in many years, outpacing inflation. This, alongside the ever-growing population, is likely to continue fuelling a demand for housing.

Meanwhile, there remains a significant shortage of housing stock. Despite the pick-up in house-building levels in the last couple of years, many estate agents are reporting a lack of property coming onto the market with 'for sale' housing stock at an 11-year low.

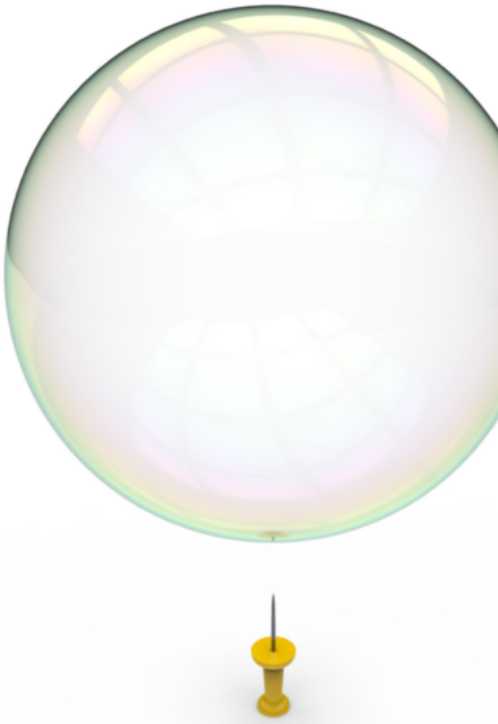
One influence on the availability of homes for sale will be the recent tax changes affecting so-called 'Buy to Let' landlords, of which there are now an estimated 2 million. Whether landlords choose to sell-up, increase rents to cover their costs, or accept lower returns, the impact will likely be felt gradually over the next few years.

So what can we expect?

Strengthening demand from would-be buyers, combined with constrained supply, suggests that the UK as a whole is unlikely to see any significant 'correction' in house prices in the near future. This view is shared by many forecasters, including estate agency Savills who predict continued, steady growth of between 2.5 - 5% per year for the next five years.

Predicting the likely direction of central London house prices is far tougher. Estate agents in the capital are still forecasting growth in the year ahead, but there is no doubt that activity has eased back in recent months. With at least 20,000 'luxury' homes currently under development or in the planning stages (a level far greater than the historic norm), a period of consolidation seems likely.

If you're looking for advice on funding your next property purchase, please get in touch.



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COPEN1166 Exp. 10/06/16

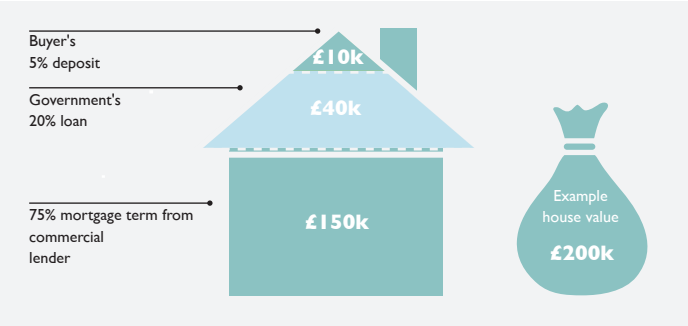
Help to Buy
Providing support to homebuyers

The government-backed Help to Buy scheme comprises three elements:

- **an 'equity loan' – for brand new homes in England & Wales**
- **a 'mortgage guarantee' – for new-build or existing homes anywhere in the UK**
- **NEW: a 'Help to Buy ISA' – to help first-time buyers save for a deposit**

Help to Buy equity loans

With a Help to Buy equity loan you only need a 5% deposit and a 75% mortgage – the government will lend you up to 20% to fill the gap. Help to Buy equity loans are open to both **first-time buyers** and **homemovers**. They can be used towards **new-build** homes worth **up to £600,000**.



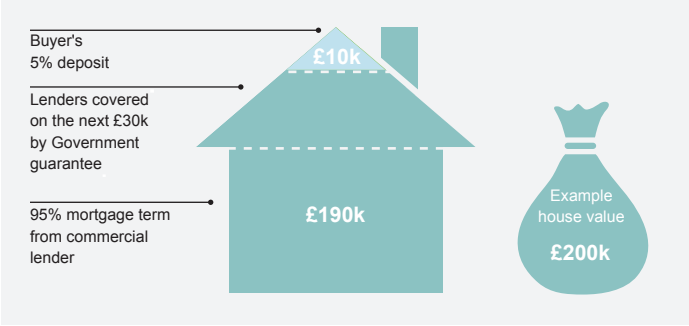
The scheme is not available for those wishing to purchase a second home or a Buy to Let property. The equity loan must be repaid after 25 years – or earlier if you sell your home.

You must repay the same percentage of the proceeds of the sale as the initial equity loan (ie. if you received an equity loan for 20% of the purchase price of your home, you must repay 20% of the proceeds of the sale). The equity loan is interest free for the first five years. After that, you will pay a fee of 1.75%, rising annually by the increase (if any) in the Retail Price Index (RPI) plus 1%.

If you're looking for help stepping onto or moving up the property ladder, please get in touch.

Help to Buy mortgage guarantee

The Help to Buy mortgage guarantee scheme works by offering lenders the option to purchase a guarantee on mortgages where a borrower has a deposit of between 5% and 20%. Help to Buy mortgage guarantees are open to both **first-time buyers** and **homemovers**. They can be used towards **new-build homes** or **existing properties** worth up to **£600,000**.



The guarantee protects the lender rather than the borrower against losses. Borrowers remain fully responsible for their mortgage payments and any shortfall in the normal way.

Help to Buy ISA

The new tax-free Help to Buy ISA will be available to first-time buyers from 1 December 2015. Under the new scheme you can save up to £200 every month and the government will then add a 25% top-up.

If you save the maximum every month, the government will add in £50 up to a maximum of £3,000. You will also be able to save an additional £1,000 when you first open the ISA. This means you can save £1,200 in the first month and it will be topped up by £300.

Accounts are limited to one per person, but if you are saving as a couple you could qualify for a £6,000 bonus. This could make all the difference if you are looking to buy your first home together.

Tax concessions are not guaranteed and may change in the future.

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COPEN1115 Exp. 15/03/16

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Buy to Let tax revamp

There have been several shake ups announced in the Buy to Let market recently that affect both landlords and tenants.

Tax relief

Landlords can currently deduct mortgage interest from their rental income before calculating how much tax they should pay.

From April 2017, tax relief on Buy to Let mortgage interest will gradually be reduced. The restrictions will be phased in over four years, resulting in tax relief only being available at the basic rate of income tax (currently 20%) from April 2020.

Landlords can also claim 10% of their rent as tax relief for wear and tear. From April 2016 the allowance is being replaced by a system that only allows them to claim tax relief when they replace furnishings.

If you are in the Buy to Let market, you may want to consider setting up a company to take ownership of the properties, as homes owned within a company structure are not affected by these changes. However, the transfer will be treated as a market sale meaning it may incur capital gains tax and stamp duty.

Safeguarding tenants

The Deregulation Bill looks to prevent 'revenge eviction' by prohibiting landlords from serving a no-fault 'section 21' eviction notice for six months following the issue of a local authority improvement notice.

The bill also requires all rented properties to have a working smoke alarm and, in some cases, carbon monoxide detectors. Failure to meet these requirements can result in a fine of up to £5,000.

Right to rent

From 1 February 2016 all landlords will need to check their tenants have the right to rent a property in the UK. Those who let property to someone without the right to rent can be fined up to £3,000.

Buy to Let mortgages are not regulated by the Financial Conduct Authority.

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COPEN1165 Exp. 10/06/16

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Accident protection

More accidents happen in the home than anywhere else. And during the winter months more time at home means more chance of an accident.

You may take extra care whilst taking down the Christmas decorations or spring cleaning for Easter, but can you be sure your family are being as vigilant?

Every year[1]:

- There are approximately 5,000 deaths as the result of an accident at home – with children under five and people over 65 most likely to have an accident
- 200,000 people report injuries that result in more than three days off work
- Almost 7,000 people were admitted to hospital after accidents involving a ladder
- Nearly 4,000 were admitted to hospital following accidents involving furniture
- 3,053 were injured due to accidental poisoning
- 137,264 under 18s are admitted to hospital due to injury

Spring cleaning may sound harmless but it can involve many of the chores that lead to trips, slips and falls. It is important to take the time out to think about your safety. If you need to climb, avoid using chairs and use a step ladder instead.

Most importantly, don't rush things, as that's when most accidents are likely to occur.

Take appropriate cover

You may think 'it won't happen to me' but accidents, by their very nature will happen. Accident protection can provide a cash lump sum when you really need it for a range of specified accidental injuries. It can give you a little more financial security to help cope with any loss of earnings through illness or injury.

Accident protection can provide cover for:

- Broken bones
- Hospitalisation due to accident and sickness
- Permanent injuries
- Permanent disablement
- Accidental death
- Funeral costs

Talk to us today about accident protection for you and your family.

[1] *ROSPA & MetLife*

COPEN1174 Exp. 14/12/16

‘Seven Families’ campaign highlights loss of income risk

A charity-led campaign is aiming to raise public awareness of the financial impact of long-term illness or disability.

Launched in October 2014, ‘Seven Families’ is using the examples of seven real families in the UK where the main breadwinner has been forced out of work by an accident or illness – and not received any related insurance pay out.

Seven Families is a charity that provides a tax-free income for one year to those seven people, to highlight the importance of planning financially for the unexpected. But it isn’t just about the money, each family will also have the opportunity to benefit from rehabilitation and counselling services typically associated with income protection insurance policies.

“It won't happen to me”

Many of us think we'll never have to stop work because of our health, but 16% of the working-age population will suffer a disability that prevents them from working. An astonishing 300,000 people a year fall out of work and into the welfare system because of health-related issues.

“MS almost finished me”

The Seven Fanmilies campaign is about real people and it has a simple message at its heart: income protection cover can make a huge difference to people’s lives when they really need it.

Daniel Pinder, who is currently being supported by the Seven Families campaign, was diagnosed with multiple sclerosis in 2009. Daniel was forced to give up work in 2014, aged just 50.

"Income protection is essential for yourself and family," he said. "I wasn't prepared to deal with the changes to my health, especially with regards to how it affected others as well as me. But the money has helped make a huge and positive difference."

Have you protected yourself and your family?

Income protection cover will help provide an income if you are unable to work due to an accident, sickness or, in some cases, unemployment. Get in touch to find out we can help protect you and your loved ones.

You can find out more about the Seven Families campaign at www.7families.co.uk

COPEN1169 Exp. 10/06/16

Autumn Statement – What it means for you

The balance of economic changes had been moving in the Chancellor's direction, giving him some wriggle room to make a number of surprise announcements in his 2015 Autumn Statement.

Tax credits

One of the biggest of those was the Chancellor's U-turn on tax credits. He was widely expected to water down his summer cuts, but instead, abandoned nearly all of the measures, leaving the main taper rate and income thresholds unchanged.

The housing market

Mr Osborne also returned to the stamp duty land tax (SDLT) rules for residential property, announcing that, from 1 April 2016, the rate of SDLT on purchases of "additional residential property" (eg. second homes and Buy to Let) will increase by three percentage points.

He also revealed further initiatives for homebuyers, promising a total of 400,000 affordable housing starts by 2020/21, half of which would be starter homes sold with a 20% discount to young first-time buyers.

In the city, a new Help to Buy equity loan scheme will give London buyers 40% of the home's value from early 2016, as opposed to the 20%, offered by the current scheme. The government is also announcing a series of other schemes, including Help to Buy: Shared Ownership to help more people get onto the housing ladder.

Pensions

While making no fresh major pension tax announcements, the Chancellor did execute a subtle cut to the cost of pension tax relief for the government by pushing back six months the dates on which auto-enrolment contributions will increase. The rise from 2% to 5% total contributions will now occur in April 2018, with the final move to 8% a year later.

From April 2016, the basic state pension will rise to £119.30 per week, an increase of £3.35 - the highest real terms increase to the state pension for 15 years.

Inheritance tax

There were two small pieces of good news on the IHT front:

- No action will be taken over the use of deeds of variation to make post-death amendments to wills.
- The legislation on pension plans in drawdown is to be clarified to ensure normally no IHT is payable on funds remaining at death.

Energy

The current Energy Companies Obligation, a government scheme for larger suppliers to deliver energy efficiency measures to British homes, will be replaced from April 2017. Instead, a new cheaper energy supplier obligation to reduce carbon emissions will run for five years, which should see 24 million households save an average of £30 a year on their energy bills from 2017.

The Warm Home Discount scheme will also be extended to 2020-2021. This currently gives certain low-income households a one-off reduction of £140 on their electricity bill.

Flood protection

300,000 homes will be better protected from flooding by 2021, with £2.3 billion for over 1,500 flood defence schemes across the country.

Tax concessions are not guaranteed, may change in the future and are subject to individual circumstances.

If you'd like to know more about how the announcements made in the Autumn Statement affect you, please get in touch.

COPEN1172 Exp. 10/03/16

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Business survival planning

If something happened to you, your co-owners or employees, could your business survive?

A study by Legal and General shows 46%[1] of new businesses would fold immediately following the death or critical illness of a key person.

The loss of a key person within a small or medium-sized business can cause unexpected costs at what would be a difficult time. Not only would the business have to fund the cost of recruiting and training a replacement, but it would also risk suffering:

Loss of profits

Loss of important business contacts

Loss of knowledge

For further information or advice on setting up a business protection policy please get in touch.

Business protection insurance can help mitigate or even avoid these risks altogether.

As a business owner, you should know there are three main types of business protection:

- **Key Person Insurance** – provides a lump sum to the business on the death of an important member of the business.
- **Shareholder Protection Insurance** – provides a lump sum that will allow remaining shareholders to buy the shares of a deceased shareholder.
- **Business Loan Protection** – provides a lump sum to help a business pay any outstanding business loans.

There is also the option to take out relevant life insurance in trust. Although this is not technically business protection an agreement can be made which specifies the terms on which proceeds can be used.

Critical illness cover should also be a consideration, as long-term or permanent absence from work, could cause serious financial pressures to you and your business.

Protect your bottom line

People are the biggest asset to any business and Business Protection Insurance is designed to keep your business trading should you lose the people responsible for your profit margin.

[1] *Legal & General - State of the nation's SMEs report*

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COPEN1175 Exp. 14/12/16