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Viewpoint

Your latest newsletter from Compass Personal Finance

compass PERSONAL FINANCE

European legislation hits the UK mortgage market

Back in March 2011 the European Commission proposed a new directive on credit agreements for consumers secured on property, referred to as the European Mortgage Credit Directive (MCD). The new rules came into force on 21 March 2016, but what do they mean for you?

Protecting consumers

MCD introduces standardised conduct rules for firms selling first and second charge mortgages across the EU, designed to protect consumers taking out credit agreements relating to residential property.

The good news is that the UK already has a robust regulatory regime in place, which means the changes coming in under the MCD are relatively minor.

Mortgage Market Review (MMR)

In April 2014, the UK's financial services regulator, the Financial Conduct Authority (FCA) introduced a number of significant changes to its rules around mortgage regulation, known as the MMR. These changes were designed to tighten the rules in a number of areas ensuring that irresponsible lending practices are stamped out of the mortgage market.

In fact, the introduction of the MMR means that many of the MCD's requirements are already met, as the FCA were able to anticipate some of the emerging EU proposals through the recent MMR changes.

The most significant area of change is to the rules around second charge mortgage lending, meaning all lending secured on the borrower's home will be regulated under the FCA mortgages regime.

Whilst the changes are relatively minor, there will be a few new issues that lenders and mortgage advisers will need to incorporate into their businesses, such as:

- Changes to when and how you are told about the range of products that are on offer, any limitations in the services provided and how much mortgage advice will cost.
- A new Mortgage Illustration which has additional information about the cost of the mortgage and an example of what would happen if rates rose to a 20 year high.
- The introduction of a new mortgage offer that's binding on the lender and a new seven day reflection period for the consumer.
- A new approach to monitoring customers' foreign exchange exposure, including where part or all of their income is in a foreign currency, other than Sterling.
- A new classification of 'Consumer Buy to Let' mortgages to provide additional regulatory protection for 'accidental landlords' (people who did not buy the property with the intention of renting it out but ended up doing so).
- Regulation of second charge lending.

Whether you are buying your first home, moving up or down the property ladder, purchasing an investment property or simply remortgaging, the process is often complex, time consuming and for many people daunting!

Contact us and we'll go through the mortgage process with you to help ensure you make the right decisions.

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

COPEN1240 Exp. 31/12/16

Have you found your forever home?

When you think about your dream home – the one you can see yourself growing old in – what do you imagine it looks like? A modern architectural masterpiece built of glass and metal, or something more old-fashioned and cosy?

If you asked your friends and family what their ideal 'forever' home looks like they will probably all have very different ideas.

What does your forever home look like?

Whether you're fortunate enough to be on the lookout to buy your forever home, or you're thinking of doing up your current home to make it one you won't ever want to move from a recent survey has revealed some interesting statistics:

Top of the must-have list for UK home buyers is off-street parking, whereas one of the 'dream' features is a garage – despite reports suggesting we rarely use our garages to park our cars.

Marketing your forever home

If you're selling your home, you can make it more marketable by appealing to someone's idea of a forever home. Converting an office or junk room into an extra bedroom can make it more attractive to families. You could also convert your downstairs cloakroom or the cupboard under the stairs into a toilet or wet room and use potted plants on patios or driveways if you haven't got a big garden.

If you are thinking of improving your current home, or you're looking to buy or sell a property, please get in touch to discuss your mortgage needs.

What do you think a forever home is?

61% of the people surveyed think their forever home is the one they'll grow old in

Only **10%** think it's something they can currently afford

Where should it be?

26% want their forever home to be in a village

Only **8%** think their forever home will be in a big city

Do you live in yours?

33% of 18-24 year olds think they're currently living in their forever home compared to **43%** of 35-44 year olds believe the same

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School sports day

Are you one of the one in three parents who worry about the risk of serious injury from school sports?

New research from MetLife has found one third of parents with school age children are concerned about serious injuries from sport – and there are real reasons to be worried.

The research shows in the past five years:

around 17% of parents have had to take a child to Accident & Emergency units because of injuries sustained whilst playing sport at school

one in six have had to visit GPs for advice on sports injuries

one third of parents have had to seek medical or dental treatment for children due to school sports injuries

Parents are also becoming increasingly keen to see action from schools and sports bodies to help reduce the risk of injury:

- one in five say they would be happy to back a ban on full contact rugby in schools
- over one third want better recording of injuries suffered as a result of school sports
- 40% want children to be able to opt out of rugby
- one third would support opt-outs for hockey and football

Should contact sports be banned?

The benefits to children of playing sport are huge. Aside from enjoyment, it improves physical fitness and health, and builds self-confidence. However, it is clear that a substantial number of parents are worried about the risk of serious injury.

The Sport Collision Injury Collective, a group of doctors, academics, sports scholars and health professionals, have called for a ban on tackling in rugby. These calls may be controversial and many will argue that playing contact sports is a great way to develop team work and a broader set of skills.

School sports aren't the only culprit either. MetLife reports over two-thirds of their claims relating to children on their accident and hospital cover policy are for broken bones. With the summer holidays around the corner, children are likely to be outside playing with friends and taking part in summer activities and sports clubs.

Although we can't wrap our children in cotton wool, we can take preventative measures and give them the tools they need to avoid unnecessary risks, as well as putting protection in place in the event an accident does happen.

If you'd like information or advice about accident protection cover, please get in touch.

COPEN1290 Exp. 16/12/16

The accidental landlord

European legislation introduced in March 2016 created a new category of Buy to Let lending: Consumer Buy to Let. Its principal aim is to distinguish borrowers who become landlords by accident and therefore require consumer protection, from experienced landlords operating Buy to Let as a business.

Unlike an investment Buy to Let, where the landlord is renting a property for business purposes, a consumer Buy to Let might be an inherited property, or a property that was once lived in, but is now rented following a change in circumstances.

A consumer Buy to Let borrower now has to go through a similar application process and affordability tests as with a residential mortgage, but their Buy to Let mortgage contract would dictate that the property must be rented out and not lived in by the borrower.

Are you an accidental landlord?

The Treasury estimates around 11 per cent of existing Buy to Let mortgages may fall into the Consumer Buy to Let category. If you own and live in your own home, but your circumstances are changing so you need to move out and rent your property, you'll fall into the Consumer Buy to Let category. For instance:

- you may be getting married or entering into a civil partnership where you're moving into your partner's home
- you may have inherited a property and you need an income from it to maintain it
- going travelling – you're letting out your home while overseas to cover the costs of your mortgage
- going travelling – if you're letting out your home while you are overseas to cover the costs of your mortgage
- moving elsewhere but not selling – If you're moving but don't wish to sell your old home, you could rent it out and transfer your residential mortgage onto a Consumer Buy to Let mortgage

In terms of the lending criteria for this new category of Buy to Let, it's likely that the biggest lenders will ask some additional questions around affordability as part of the application process, but there won't be a material change to lending criteria.

If you are planning on renting out a property and you're unsure as to whether the consumer Buy to Let rules apply to you, please get in touch.

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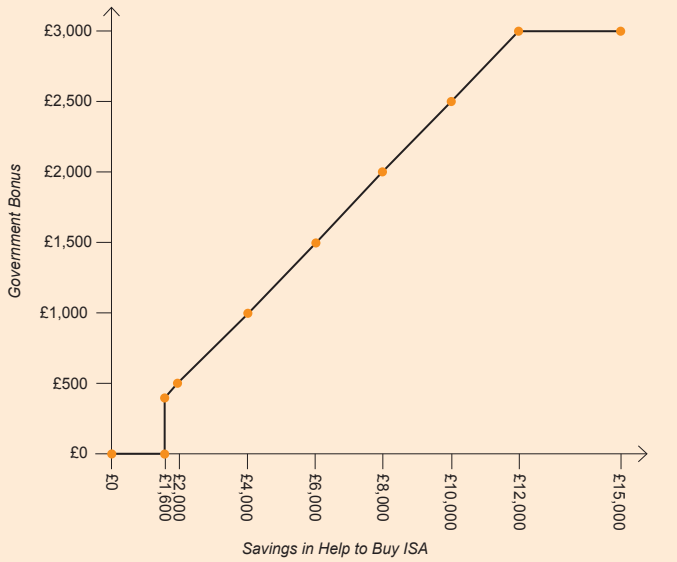
COPEN1306 Exp. 31/03/17

Help to Buy ISA – things you might not know

If you're saving for your first home you may have heard about the Government's latest initiative, the Help to Buy ISA. This is effectively a cash ISA where you can save up to £200 a month, but the government will boost your savings by 25% up to a maximum of £3,000 (provided you've saved at least £1,600).

What's more, you can open a Help to Buy ISA with a deposit of up to £1,200. This means that over the course of your investment, you could have £15,000 to put towards your first home:

Savings and Government Bonus



Using your bonus funds

You can only claim your bonus funds when you are buying a home and the money has to go towards the completion of your property. This means you can't use it to pay your solicitor, estate agent or any other fees or costs associated with buying a home.

Interest you earn

Your government bonus will be calculated based on the amount of money you have in your account when you close it. This includes the money you have put away and any interest you've earned on that money. You can have more than £12,000 in your account, but you'll be limited to a maximum government bonus of £3,000.

Applying for your bonus

When you find your home, your mortgage provider will ask you to hire a solicitor or conveyancer to handle the legal aspects of buying it.

When you're close to finalising your home purchase, you'll need to ask your bank or building society to close your Help to Buy ISA and they will give you a closing letter. You will then need to take this letter to your solicitor or conveyancer so that they can apply for your government bonus.

Closing your account

If your home purchase doesn't go through after your solicitor or conveyancer has received your government bonus, you can re-open a Help to Buy ISA and the same terms will apply.

Your solicitor or conveyancer will give you a document (called a purchase failure notification) confirming your home purchase did not complete. If you take this to a bank or building society, they will open an account for you. At this point, you will be able to deposit your money as a lump sum. So, if you closed your Help to Buy ISA with £12,000 in it, you will be able to re-deposit £12,000.

First home, new responsibilities

Owning your own homes brings new responsibilities in terms of paying a mortgage and it's important to think about things like income protection, which can help to protect the roof over your head if you're unexpectedly unable to work.

If you'd like a review of your savings and investments please get in touch.

COPEN1294 Exp. 05/04/17

The risks of being underinsured

Most of us wouldn't think twice about protecting our home, car, TV or smart phone – we even insure our holidays and pets. But there's one aspect of protection that too few of us consider – what happens to our homes and our livelihoods in the event we have an accident, serious illness or die?

What's your greatest financial asset?

What would you say if you were asked what's your greatest asset? Your home? After all, it is one of the biggest financial commitments we undertake. Think again. If you calculate how much income you'll receive between now and retirement, the reality is that your income is your greatest asset. So have you protected it in the same way you've protected your home?

New research suggests in most cases the answer is no, with 64% of households surveyed having no income protection in place. And this is despite nearly half of co-habiting couples in the UK claiming they are reliant on both salaries just to make ends meet. In fact, 34% admitted they would have to make substantial changes to their lifestyle if one partner was unable to work:

59% would have to cancel holiday plans

21% would cancel gym memberships

10% would ask family for additional help with childcare

13% would have to make a drastic change such as downsizing their house

More shockingly around 12% would have to visit food banks just to keep food on the table.

Protecting your income

Every year almost a million people find themselves unable to work due to an accident or illness. Taking out income protection provides you with a tax-free income if you're sick or injured and unable to work. It could help you pay your mortgage/rent, utilities bills or even any medical bills you may incur.

Protecting against the unexpected

While losing your income could put you and your family in a difficult situation, what if you or your partner were diagnosed with a critical illness? The last thing you'd want to worry about would be your finances, especially as a study by Macmillan Cancer Support shows that the average family of someone receiving treatment for cancer has a monthly shortfall of £200 – even if they slash their spending to the essentials.

80% of us consider broadband to be essential, but less than 39% think that financial security for dependants in the event of a critical illness is. Critical illness cover or life insurance may not sound like priorities for you, but the financial buffer they can provide at such a difficult time could be invaluable.

There are a number of affordable protection products that give you financial peace of mind in the event of accident, injury, or worse.

Talk to us about protection insurance tailored for your circumstances.

COPEN1300 Exp. 16/06/17

What's your flood risk?

Between 3 December 2015 and 3 January 2016 there were over 22,000 flood claims, with an estimated £1.3bn being paid by insurers following the destruction caused by storms Desmond, Eva and Frank.

How do you know if you're at risk?

More than 5.5 million homes are at risk of flooding, with those in the highest risk category facing a 1 in 30 chance of being flooded in a given year.

You can find general guidance on flood risks online. The Environment Agency's site includes maps that indicate the areas at the highest risk like coastal properties or those built on flood plains. You can also sign up to their free flood alerts if you're in a medium to high-risk area, and you'll want to keep an eye on the news for the latest weather forecasts.

You could also pay to have a property-specific report – although this may not be a huge help if you do come home to a deluge in your dining room.

Minimising the damage caused by flooding

There are a number of measures you can take to help prevent excessive damage to your house in the event of a flood, including:

- sandbags or flood barriers to hold back the flood water
- flood resistant covers on air bricks
- if a storm is predicted, roll up any carpets and rugs where you can
- take down curtains or loop the ends to avoid water damage
- cover large electrical goods with plastic sealable bags

Flood insurance

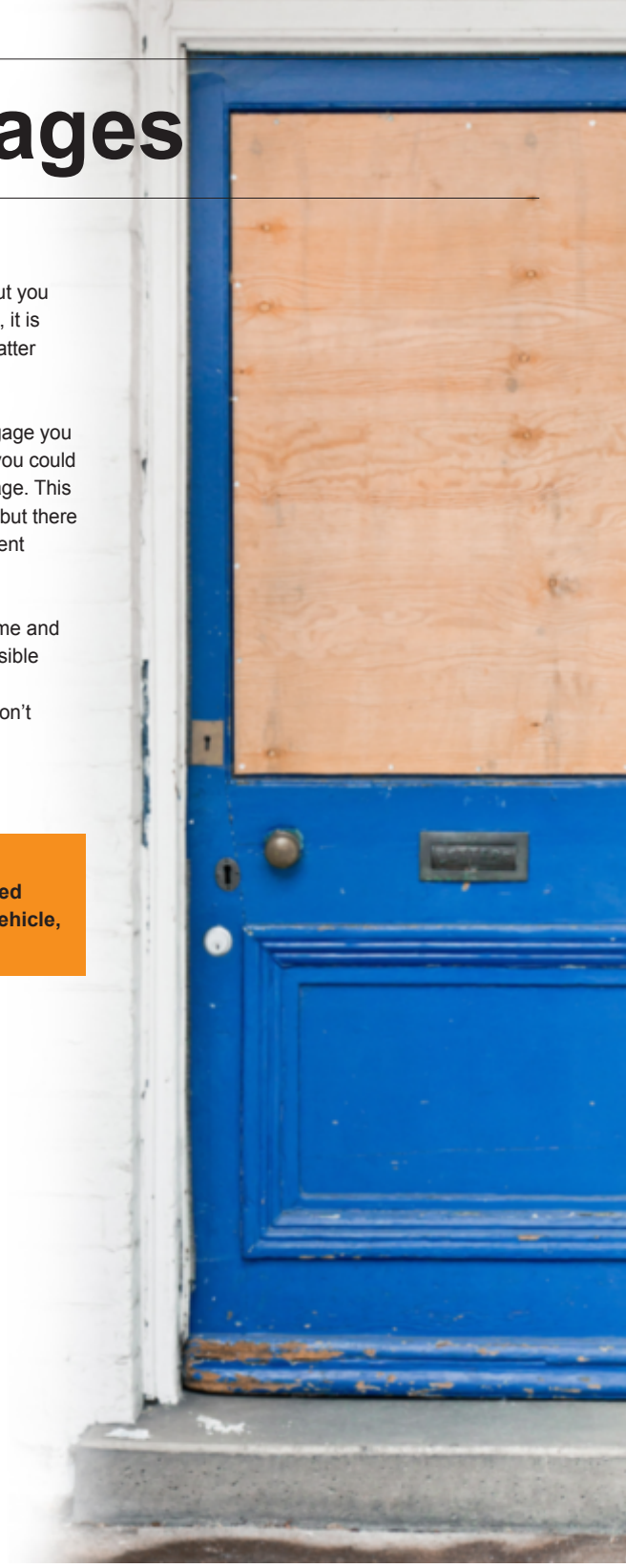
In order to be financially covered in the event of a flood, you will need to have buildings and contents insurance. If you rent out a property, you'll need to have buildings cover and your tenants will require contents insurance.

With experts suggesting the frequency and intensity of the storms that hit our shores set to rise, it's more important than ever to insure your home against the possibility of flood damage.

If you're in the process of buying a property or you need to renew your buildings and contents insurance, talk to us and we'll help you get the right cover for your home.

COPEN1295 Exp. 16/12/16

Interest-only mortgages



Thousands of people with interest-only mortgages expiring this year do not have a repayment plan – putting their homes at serious risk of repossession.

40,000 interest-only mortgages are set to mature in 2016, but experts suggest that only half of these homeowners have the capital in place to repay the loan.

And according to the charity Citizen's Advice Bureau, this is just the tip of the iceberg, with 934,000 interest-only borrowers without a plan to pay off their mortgage.

The ins and outs of interest-only

Unlike a repayment mortgage, where the borrower pays off the capital and interest on their loan each month until the debt is cleared, an interest-only loan offers a cheaper monthly premium, but requires a single repayment of the capital at the end of the term. Normally this is cleared using the proceeds from a separate investment vehicle.

For example a £150,000 mortgage at 5% over 25 years would cost £877 per month on a repayment basis, but only £625 per month interest-only. However, the latter leaves the original £150,000 capital debt to be repaid.

Don't get trapped

If you have an interest-only mortgage but you don't have a repayment vehicle in place, it is critical you review your finances as a matter of urgency.

Depending on the term left on the mortgage you could set up a repayment plan now, or you could look at switching to a repayment mortgage. This may mean higher monthly repayments, but there are a lot of competitive deals in the current 'low-interest rate environment'.

Another option could be to sell your home and downsize – something that may be possible if older children have flown the nest but nevertheless a difficult decision if you don't want to lose a cherished family home.

If you are concerned about your interest-only mortgage, or you need advice on a suitable investment vehicle, please get in touch.

SINCE 2012, ANYONE TAKING OUT AN INTEREST-ONLY LOAN MUST HAVE A REPAYMENT PLAN IN PLACE.

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