

An illustration on a purple background. In the foreground, a large, light-colored bulldog with a brown collar with yellow studs looks towards the viewer. In the background, a smaller brown bulldog with a similar collar is on the left, and a simple house with a purple door is on the right. A blue speech bubble is overlaid on the large bulldog's face.

**Guarding
against housing
market
uncertainty.**



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Introduction

The UK housing market has been riding high for a number of years now. Since 1997, property prices across the country have increased by up to 150 per cent, with the average house price crossing the £100,000 barrier for the first time in 2002.

While those who bought early on have been laughing all the way to the bank, recent first time buyers stretched themselves to the limit to get onto the property ladder.

This is all very well in a stable economy with low interest rates and little unemployment.

But it only takes one nasty shock to the economy or an increase in interest rates to hit the vulnerable borrower hard. What's more, we cannot ride the crest of this wave forever: the house price increases

we have witnessed in recent years are simply unsustainable, and a correction is inevitable at some point.

If you are concerned that you might struggle with your mortgage payments when circumstances change, if you think your property might reduce in value, or if you just want guidance on how to reduce your outgoings or increase your income, this handy guide should point you in the right direction. The guide explains the basics – it may then make sense for you to talk your circumstances through with an independent financial adviser, who can help you achieve your goals.



Paula John
Editor, Your Mortgage magazine



Changing your mortgage is known as remortgaging. In the past this word had negative connotations, often being viewed as the last resort for the financially challenged: "We've got to remortgage the house!" sounds horribly like panic.

But in fact, remortgaging simply means switching your mortgage to a different deal or a new lender. With a little effort, you could save yourself tens if not hundreds of pounds each month.

If you are one of the hundreds of thousands of people currently paying your lender's



standard variable mortgage rate, you could save money straight away by remortgaging to a discounted, fixed, capped or tracker deal with the minimum of fuss.

In the current fiercely competitive mortgage market, lenders are going out of their way to make it as easy as possible for borrowers to switch their homeloans. All you need to do is fill in a few forms, arrange a valuation and pay a solicitor a fee. And in some cases you don't even have to stump up for these costs – the new lender will pick up the tab. There has never been a better time to reassess your

mortgage arrangements and see how you could be using your money more efficiently – and possibly saving thousands of pounds. So why doesn't everybody do it?

Some are afraid of the very word 'remortgage'. Some people are not aware that they are allowed to remortgage. Mostly, people just can't be bothered. But if you want to scale down the size of your monthly payments, switching to a new mortgage deal could be the quickest, simplest way of reducing your outgoings by a considerable amount.



Remortgage options.

Every lender offers a Standard Variable Rate (SVR) mortgage, which varies up and down roughly in line with bank base rates. SVR mortgages are never the cheapest on offer. As the market is so competitive, lenders offer discounts off their SVR mortgages in order to tempt new business through the door. As a general rule, the shorter the term, the bigger the discount. For example, you might get a 2% discount for one year, or a 0.5% discount for three years.

Example:

Mr Green has a £100,000, repayment mortgage, currently charged at his lender's SVR of 6%.

His monthly repayment is £644.30.

He remortgages to a discounted deal

charged at 4% for two years.

His new monthly repayment is £527.84

Monthly saving: £116.46

Annual saving: £1,397.52

Saving over two years: £2,795.04*

**Assuming SVR remains constant*

Mr Green may have paid a few hundred pounds up front for a valuation and solicitor, but, as we can see, the initial outlay was well spent.

Remortgage to a fixed rate

There is always an element of uncertainty about variable rate mortgages. Even discounted deals are subject to fluctuation. Fixed rate mortgages, on the other hand, provide you with the security of knowing



Take care

Before you remortgage, you must check what type of existing mortgage deal you have. If you are already on a special rate, such as a discount or fixed rate, you may have to pay a redemption penalty in order to switch your mortgage. This is a fee that can run to thousands of pounds. If you are liable to pay a redemption penalty, it may not make sense to remortgage, and you will have to look elsewhere to cut costs or maximise incomings. An IFA can find out whether penalties apply to your deal, and tell you what your best options are.

exactly how much your monthly repayments will be for a set period of time. You can set your fixed rate period for anything from six months to 25 years, but the most popular fixed terms are two and five year terms.

Fixed interest rate mortgages are rarely cheaper than other mortgage deals. But, in an uncertain economic environment, that security can be priceless, and can help you with your wider budgeting.

The traditional mortgage term was 25 years. Of late, some experts have suggested that a longer term might become the norm, as property prices are so high that spreading payments over a longer term is the only way some

borrowers will be able to afford property.

Of course, the longer your mortgage term, the more interest you will pay – and this can add up to tens of thousands of pounds extra. In an ideal world it makes sense to get rid of your mortgage as quickly as possible – preferably in less than 25 years. But if you are desperate to cut costs you could choose to lengthen your mortgage term for a while. Always consult an independent financial adviser (IFA) before taking such action.



Flexible mortgages

Introduced from Australia in the 1990s, flexible mortgages have quickly become popular in the UK. A truly flexible mortgage will allow you to do the following:

- Overpay
- Underpay
- Borrow-back overpayments
- Take payment holidays
- Carry no redemption penalties
- Have interest calculated daily.

The best thing you can do with a flexible mortgage is to make overpayments when you can afford to – regularly or as one-off lump sums. It may sound odd, but paying more than you have to means that you can get rid of your mortgage debt earlier and

potentially save tens of thousands of pounds in future interest payments.

And because interest is calculated daily, when you are in a position to overpay, the money is taken off your debt straight away, so you are immediately paying interest on a smaller amount.

But the beauty of a flexible mortgage lies in the fact that, once you have made overpayments, you can then underpay if money is tight. Or you can take a complete holiday from making payments, sometimes for up to a year, depending on the overpayments you have made in the past. This could prove invaluable if the economy or your circumstances change for the worse.



Current account and offset mortgages

Taking the concept of flexibility one step further, Current Account Mortgages (CAMs) and offset mortgages allow you to run all of your finances through the same account.

With a CAM, your current account, savings, mortgage, credit card and personal loans are all combined in one account and interest is applied at the mortgage rate, which is always higher than savings rates. So the money that would normally be in your savings or current account goes into your CAM instead to reduce your mortgage debt. So you pay less interest on this reduced amount, and your money is working harder.


The offset mortgage works in a similar way to the CAM, but your mortgage, savings and current account are kept as separate products. So the saving and borrowing rates are offset against one another, but you can view your different 'pots' of money separately.

CAMs and offset mortgages can offer the most efficient use of all your money and they make sense for many people. But the concept can be confusing at the outset, so why not speak to an IFA for further information?



Renting out a property or a room.

Supposing your property is large enough, you could generate a significant amount of income by taking in a lodger. Furthermore, this income can be taken free from tax up to £4,250 (2003-2004), as long as you let out a furnished room. The amount you can charge will vary widely according to where you live – check with local letting agents for a ballpark figure.



Of course, choosing the right lodger can be daunting. If you feel you would like some legal recourse if anything goes wrong, it may make sense to draw up a licensed agreement. This is a legal document formally outlining the arrangement between you and the lodger. They are produced by legal publishers and are available at high street stationers. This will provide legal evidence regarding: the length of tenancy, the deposit amount, notice period and any other conditions you agree on. Quite simply, it will give



you recourse to go to the courts if necessary.

It may make sense to inform your mortgage lender or insurer in case having a lodger impacts on your property insurance. Most

lenders will have no objection – an IFA will be able to find out your lender's stance on letting out a room.

Renting out a property

In certain circumstances renting out property can be profitable but do remember that you need to keep records of your expenditure and rents

received for your tax return.

If you are having difficulty letting out a buy-to-let property you own, which is not your main residence, consult an IFA as regards the viability of selling up versus playing the waiting game. You need to be aware that you could be liable for Capital Gains Tax on any profit made.





Your mortgage repayment is likely to be your biggest monthly outgoing. If you (or your IFA) cannot find a cheaper deal than you are currently on and you are having difficulty making repayments, there are other ways of cutting your costs.

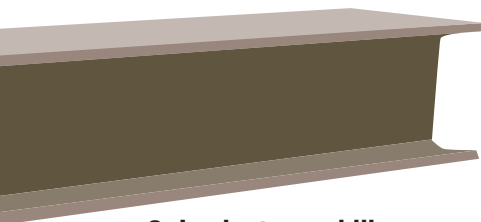
1. Downsizing

That is, moving to a smaller and/or cheaper property. This is a drastic measure which

may not be a viable option for some homeowners. It makes sense to consult an IFA before resorting to this.

2. Consolidate other debts

If you have debts other than your mortgage, and you have any spare cash at all, it makes sense to pay those debts off as quickly as possible. Adding this debt to your mortgage could actually bring your outgoings down, as the interest charged on mortgages is lower than any other kinds of debt.



3. Look at your bills

Look up how much you are paying each month for buildings and contents insurance and other insurances, plus utility bills. Could you save money by switching provider? A couple of phone calls could reduce costs.

Negative Equity

Negative equity describes the situation where your mortgage is larger than the value of the property the mortgage is secured on.

Negative equity comes about when there is a property crash, or a sharp correction in the property market.

In the last crash in the 1990s, thousands of people in negative equity simply gave their properties back to the lenders as repossessions. This is the worst thing you can allow to happen. Speak to an IFA if you fear that you might be in or approaching negative equity. They may help you restructure your finances and keep your head above water.



Ask for help.

If you ever have difficulty making your mortgage payments, you must inform your lender as soon as possible. They may well be sympathetic and may give you breathing space or negotiate lower monthly payments for a while.

Sadly – and contrary to popular opinion – you will not get much help from the State. If you bought your property after 1st October 1995, you will get no help at all for the first nine months, and even then the State will only cover the interest owed on your loan. And they will not provide anything at all

unless you are in receipt of Income Support or the Jobseeker's Allowance, so your savings must not exceed £8,000.

In order to protect against such an eventuality, you might consider insuring your mortgage payments. An IFA can recommend a good deal for you.

Notes

For further information on the subject contained in this guide, please contact your IFA.

If you do not already have an IFA and are looking for advice on personal finances call the

IFA Promotion Consumer Hotline on **0800 085 3250**.

If you do not already have an IFA and are looking for financial advice for your business call the

IFA Promotion Corporate Hotline on **0800 085 3251**.

Alternatively, visit our website at www.unbiased.co.uk



Other brochures available:

- Financial log book
- Inheritance tax guide
- Mortgage guide
- ISA guide
- Tax efficiency guide
- Pension guide
- Investment guide
- Independent Financial Advice for consumers
- Independent Financial Advice for businesses
- Surviving an economic downturn
- Savings when rates are low guide
- Guide to IFA qualifications
- Bereavement guide
- Equity release guide

Factsheets available:

- Finding the right life assurance
- Planning for your family
- Long term care
- How IFAs make their money
- Confused about endowments?
- A parent's guide to education fees planning
- Funding for university
- How to get saving
- Remortgaging your home

To request one of the above brochures or factsheets, please call our Hotline on **0800 085 3250** or visit us at **www.unbiased.co.uk**

The above brochures are available in the following alternative formats: large print, braille and audio tape. Please call our Hotline on **0800 085 3250** if you wish to order an alternative format.

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