Prospect News

The latest news in the mortgage and homebuyer sector helping you keep ahead of the game.

Prospect Mortgage Services

expert advice - professional service

EDITION 18.2

SPECIAL FEATURE

PROTECTION & BUILDINGS INSURANCE

NOT ALL POLICIES ARE THE SAME

With so many financial products available, finding the right one for you can be challenging.

It can also be difficult to understand the details and the differences between products, in amongst all the jargon and small print used in the documents and policies. We review the DEFAQTO Rating System, helping to cut through the jargon and provide solid advice you can rely on. **See pages 6-7 for more details**.

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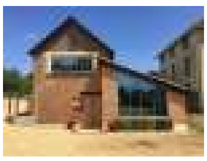

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WHAT'S NEW?

PROSPECT NEWS

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EDITION 18.2

Increase in First Time Buyer Home Purchases

Nearly 30% of homes sold in February went to first-time buyers, new figures released today have revealed. According to NAEA Propertymark, the professional body which represents estate agents, February saw first-time buyer sales rise to their highest year-on-year rate since February 2015.

NAEA Propertymark is attributing the increase to the impact of stamp duty relief, the effects of which are now filtering though following its introduction in late 2017. *(Source: www.whatmortgage.co.uk)*

Specialist Mortgages in High Demand from self-employed

A rise in self-employed workers in the UK is driving demand for specialist residential mortgages, a report has revealed. According to a survey of mortgage intermediaries, the self-employed made up 21% of customers for whom it was more difficult to find lending solutions.

Self-employment in general has risen sharply in the UK, increasing from 3.9 million to almost 4.8 million by the end of 2017. John Heron, managing director of mortgages at Paragon, said: "It seems clear from this latest research that complexity around employment and income are the most significant reasons that intermediaries review the options available from specialist lenders." *(Source: www.whatmortgage.co.uk)*

Popular five-year mortgages overtake two-year deals

Borrowers are opting for five-year fixed-rate mortgages over two-year products for the first time, new figures have revealed. Nearly half (48%) of mortgages written during the last three months of 2017 were for five years or more.

The rise in popularity of the long-term fixed-rate mortgage has been attributed by many industry experts to the Bank of England's 0.25% interest rate hike at the end of last year. Many borrowers have sought refuge from future interest rate rises by signing up for longer term fixes. *(Source: www.mortgagesurvey.co.uk)*

TRY OUR MORTGAGE CALCULATOR TO SEE WHAT RATES YOU COULD BENEFIT FROM

www.prospectmortgage.co.uk

INTERESTING TIMES

Rising interest rates for mortgages could be an issue to consider this year

In March, the Bank of England left interest rates on hold at 0.5%, but indicated a rise was coming. However, it did add that any future increases would be at a gradual pace and to a limited extent.

How could it affect you?

If rises do occur it may be a concern for many, and more immediately for those borrowers on standard variable rates (SVR).

Moneyfacts, the independent data provider, is urging SVR customers or those coming to the end of their deal to look for a fixed-rate mortgage, which will provide shelter from future increases. The cost of mortgages has remained stable in the three months following the Bank of England's interest rate rise but with predictions of another rate increase in May the calm may not last for long and SVR customers should not rest on their laurels.

Charlotte Nelson, finance expert at Moneyfacts, said: "The talk of another base rate rise as early as May could mean that these borrowers find themselves significantly worse off.
"A further 0.25% rise means that borrowers might see a £35 increase to monthly repayments (based on the average SVR) in a short six months."

She added: "The mortgage market…indicates that a base rate rise in the near future is likely."

Her advice to borrowers sitting on their SVR or approaching the end of their deal was to look at switching to a fixed-rate mortgage.

She added: "It is now important that they act fast to ensure they get the best possible deal"

There are approximately 4 million borrowers who sit on a variable rate with their lender *(Source: UK Finance – November 2017)*

SHARED OWNERSHIP: SORTING FACT FROM MYTH

First-time buyers and other home movers can learn more about shared ownership schemes and mortgages using a new online guide launched by The Cambridge Building Society **(https://www.cambridgebs.co.uk).**

It has been compiled to clear up confusion around who is entitled to benefit from the schemes, which allow buyers to part-own and part-rent a property.

Can I choose any house to buy with a shared ownership mortgage?

In the vast majority of cases, shared ownership schemes are for newly built homes which typically form part of larger developments of houses and flats. However, from time to time, housing associations will also advertise existing shared ownership properties for resale when the previous owner wishes to move on. You will need to register with the Help to Buy agent in the area you want to live in before you make an application for a shared ownership property (Help to Buy South).

I need a spare room, so shared ownership won't work for me.

You can apply to buy a property with one bedroom more than you need. So, a single person, or couple, without children could buy a two bedroom shared ownership property and a couple with one child could buy a three bedroom property. However, in most instances you cannot sub-let a spare room under a shared ownership scheme. Each housing association that runs a shared ownership scheme (and your mortgage provider) will have rules about lodgers and sub-tenants as part of the lease and you must abide by these.

I have owned a house before, am I still eligible?

Yes, if you previously bought a house but sold it and now your finances are such that you cannot afford to buy outright again, you can apply for a shared ownership purchase.

How much of the property can I buy at the outset?

Shared ownership schemes offer properties starting at one-quarter (25%) ownership, up to three-quarters (75%). However, you can "staircase" and purchase a bigger share of the property at a later date when you are ready. In most cases, this will include the opportunity to purchase 100%.

Am I eligible?

In order to be eligible for shared ownership in England, and a shared ownership mortgage, you must meet certain criterias (these vary from provider to provider and by location so check before making an application for a property). For example, the combined household income of shared ownership applicants must be less than £80,000). Additionally, prospective buyers will need to meet at least one of the following criteria.

You must be either be:

- a first-time buyer
- someone who previously owned a home, but can no longer afford to buy now
- a tenant of a council or housing association property

There is a different scheme available for people aged 55 and over. For anyone in this age bracket the scheme is called 'Older People's Shared Ownership' (OPSO).

People with long-term disability looking for housing suitable to their needs can apply through the Home Ownership for People with long-term Disabilities scheme (HOLD).

(Source: Cambridge Building Society & www.whatmortgage.co.uk)

PROTECTION & BUILDINGS INSURANCE

NOT ALL POLICIES ARE THE SAME

With so many financial products available, finding the right one for you can be challenging.

It can also be difficult to understand the details and the differences between products, in amongst all the jargon and small print used in the documents and policies.

Even if you did read all the details, how would you compare them? How would you know what's important and what's not? And would you have the time to do it?

DEFAQTO STAR RATINGS
Based on facts, not opinion

Defaqto Star Ratings - based on facts, not opinion
Defaqto experts do all the hard work for you by analysing policies, terms and conditions and rating them on a scale of 1 to 5 based on the quality and comprehensiveness of the features and benefits they provide.

A 1 Star rating indicates a basic product, with a low level of features and benefits, while 5 Star products have a high level.

Defaqto rate nearly 41,000 financial products including over 7,000 home, motor and travel insurance policies and over 450 current accounts and credit card products. *(Source: www.defaqto.com)*

How do Defaqto ratings work?

defaqto
EXPERT RATED
STAR RATINGS

Defaqto collect, examine and monitor information from nearly 41,000 products on a daily basis maintaining a database of over 4.1 million product features.

Throughout the year, Defaqto research the market – analysing developments, trends and regulatory changes to understand what's important when considering purchasing financial products.

Defaqto research the things that people are most likely to claim for and how much those claims might cost. This allows them to understand which features are most important.

Defaqto select the most important features and benefits for each product area. These features are then used to score all the products in the market. By totalling the scores, each product is assigned a Star Rating on a scale from 1 – 5.

Defaqto also use 'core criteria'; features and benefits that a product has to offer to be considered to be given a 5 or a 4 Star Rating.

…but what about Comparison Websites?

…Key Facts in numbers.

19%	The number of policies on comparison websites that don't offer Trace & Access *(Source: Fairer Finance Report, 2018)*
50%	The increase in amendment and cancellation fees in the last 13 years – with it costing as much as £35 for an amendment and £75 for a cancellation *(Source: Fairer Finance Report, 2018)*
66%	of comparison websites have higher excesses than their direct counterparts – working out at £33 more expensive on average *(Source: Fairer Finance Report, 2018)*
85%	of consumers with internet access have used a comparison website at least once. *(Source: Fairer Finance Report, 2018)*
£300	Research indicates that comparison websites are charging £300 more for the same insurance policy than other providers *(Source: Channel 4's Supershoppers, 2017)*
£500	Excesses for escape of water are as high as £500 on some comparison websites *(Source: Fairer Finance Report, 2018)*

Prospect Mortgage Services only offer 5* Defaqto Buildings Insurance Products

Providing you peace of mind that you have a comprehensive policy that will meet your needs when you come to make a claim

Comparison websites and credit searches…

If you use a comparison site to search for cheap insurance it will leave a mark on your credit file. It looks at this to make sure the information you've given is accurate and you haven't been telling porkies! Even though these are just 'routine checks' they still need to be logged and that is why they appear on your credit file.

This routine check is what's called a 'soft' search and leaves no permanent mark and will disappear after 12 months.

Why does it matter?

Over the past 10 years the credit landscape has almost completely shifted towards **'rate for risk'.** This means the more creditworthy you are, the better your credit score is and the better deals you can get on things like mortgages.

Every time you apply for credit it adds a footprint to your file for a year. *Too many, especially in a short space of time, can trigger rejections* as it makes it look like you're desperate for credit.

Therefore, space out applications if you can and don't do them frivolously!

(Source: www.moneysavingexpert.com)

GDPR…WHAT'S IT ALL ABOUT?

The General Data Protection Regulation (GDPR) comes into force on 25th May 2018 causing the biggest change to rules governing data protection for more than 20 years.

As well as needing to be compliant with the requirements around the storage and handling of personal data, it's crucial that a firm is able to demonstrate and evidence its processes and procedures to prove how it complies with GDPR.

A strongly recommended activity includes firms completing a data audit of all personal data they hold. Without identifying and understanding what personal data your firm holds, where it is stored and how it is used, it will be difficult for firms to comply with their individual GDPR responsibilities.

GDPR brings a strengthening of data protection rights for individuals so they have more control over their data. All firms must be ready to respond to these new rights. One change that will impact firms, will be the increased need to explain to customers how their data will be processed. It's the obligation of a firm to provide clear and transparent information to individuals on how their personal data will be processed.

It's vital that firms don't ignore the impact GDPR will have on their systems and controls. Check out the **Key GDPR Steps** to ensure you remain compliant and avoid a potential fine.

Key GDPR Steps

- **Raise GDPR awareness in your firm** All principals and staff in your firm need to understand the changes and their individual responsibilities
- **Conduct a data audit within your firm** Establish what personal data your firm holds, where it is held, what it is used for, how it flows through your firm and your lawful basis for processing such data. Maintain evidence and records of this audit.
- **Review** - Your firm is responsible for complying with GDPR. Firms should conduct regular reviews.
- **Keep updated / read and research** - The ICO website (www.ico.org.uk) offers useful articles for GDPR preparations to help provide background and context.

(Source: Pms Discover – Issue 6)

FINANCIAL CRIME & BUY TO LETS

There have been changes to the evidence required for buy to let (BTL) customers who are classified as portfolio investors (more than three rental properties).

The industry as a whole has experienced an increase in the volume of BTL applications over recent years. While the vast majority of this business is legitimate, there has been an increase in suspicious activity in relation to BTL.

2017 saw revisions to the money laundering regulations, and new facilitation of tax evasion legislation. This has led to an increased diligence by lenders to scrutinise evidence around sources of deposit and customer's residential status and address.

PARTICULAR AREAS OF CONCERN

Tax evasion: Possibly most common, is the discovery or suspicion that a customer may not be declaring rental income for tax purposes. It does not matter whether or not the rental income is being used to support mortgage payments, lifestyle or raise deposit funds.

Scheme abuse: Where individuals arrange a BTL mortgage but intend to live in the property or abuse another piece of criteria. This might be to access interest-only lending, or take advantage of lower requirements for income evidence where the property might not fit affordability otherwise. Lenders regard this as fraud and are therefore becoming ever more vigilant regarding this activity and customers risk the loan being 'called-in' or being unable to obtain credit in the future.

Number of properties/source of funds: A lender or broker will always consider whether it's realistic for a customer to have accumulated the portfolio they have, given their age/ occupation and experience. This is especially true where large deposits are involved, other properties have been bought with cash, purchases are being made in a short time frame or where gifted deposits are being used - particularly where the funds are originating overseas.

(Source: Pms Discover – Issue 6)

DO I NEED TO EXTEND MY LEASE?

If you are a leaseholder you'll already know that the shorter your lease the more problematic it becomes.

A shorter lease is more expensive to extend, for example, while if you're selling your leasehold property you will struggle to get interested buyers if your lease is on the short side because mortgage lenders are reluctant to lend on shorter leases.

When it comes to remortgaging your leasehold property, a short lease can cause similar headaches.

As a lease runs down on a property, its value will drop. This is because a shorter lease means ownership is moving closer to reverting to the freeholder. From a mortgage lender's point of view that could affect its security.

What is regarded as a short lease?

As a result, lenders will have requirements about what length of remaining term on the lease is acceptable. Although different lenders will have a different approach, anything that is getting below 75-85 years could start to cause a problem.

As an example, Leeds Building Society requires at least 85 years remaining at application. Nationwide Building Society requires a minimum of 30 years at the end of the mortgage term.

Other leasehold issues

Other issues on a lease that can affect a mortgage application would be any onerous clauses in the leasehold contract and, of course, lenders and valuers can also take a tough stance on excessive ground rents.

In short, you should always extend your lease before it gets near the 85-year mark. but the shorter your lease is the more you limit your mortgage options.

To make sure you can access the best mortgage deal out there, speak to a mortgage broker first though to see what would be available on your current lease.

Also, before extending your lease speak to a solicitor (there are specialist leasehold extension solicitors) to obtain an estimate of what it is likely to cost.

(Source: www.whatmortgage.co.uk)

RUN FOR COVER!

Despite healthier lifestyles and improving medical know-how, on average, around 125 adults aged 18-55, still die every day

The most popular protection policies are for Life and Critical Illness Protection. The death of a partner is a devastating event for any family, but it can be made worse if you are left with financial problems. So life protection plans are at the centre of all risk planning.

Cancer, heart attacks and strokes are the most common critical illnesses in the UK. The good news is that the survival rate is very high and many people make a full recovery, but during the illness and treatment they are often unable to work, and the family can fall into huge financial difficulties.

Check out the sobering statistics opposite that help in considering the chances of needing support.

Possible Solutions:

Life & Critical Illness Cover

There are a range of Life and Critical Illness policies that can be tailored to suit your needs.

These will provide a lump sum to repay your mortgage balance if you are diagnosed with a defined critical illness or die during the mortgage term.

Income Protection Plan

An Income Protection Plan is designed to pay out a tax-free monthly sum in the event that you cant work due to illness or injury. The maximum amount that you can generally opt for is 60% of your monthly income before tax.

Family Income Benefit

Unlike a normal life cover policy which is designed to pay out a lump sum to cover a mortgage family income benefit provides a regular tax-free income from the time of claim for the term of the policy. As an example, if a main wage-earner in a family with young children died a decreasing term life policy would clear the mortgage but what about ongoing everyday items such as food and utility bills or covering the cost of childcare, holidays and the like? A Family Income Benefit plan could deliver much needed support.

Protection products are complex with a vast array of options so it is essential to speak to your adviser to ensure that you choose the right policies for you and your family.

What are the chances?**

Risk of being unable to work for 2 months or more during your mortgage term	**46%**
Risk of suffering a critical illness during your mortgage term	**16%**
Risk of death during your mortgage term	**8%**
Risk of any of the above happening during your mortgage terms	**58%**

* Source of all statistics : LV Protection

**Statistics are based on 2x 30 year old, one smoker and one non-smoker, taking a 25 year mortgage. Your adviser will provide you with a personal risk profile at your mortgage interview.

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