Heavenly Finances

Personal & Corporate Financial Advice

VIEWPOINT

HEAVENLY FINANCES LTD

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Navigating the mortgage market

Three useful ways a financial adviser can help you navigate a mortgage market that changes quickly.

Mortgage deals have a record low shelf life, and the market is changing quickly. If you're searching for a new mortgage, it can make it difficult to find a suitable deal for you. In a situation like this, a financial adviser can help.

The average mortgage shelf life is 15 days

The average shelf life of a mortgage deal fell to a record low of 12 days in July 2023. That is now back up to 15 days but this means deals are only available for a little longer than two weeks before lenders pull them off the market.

If you're searching the market for a mortgage, it can mean there's added pressure. A deal you believe could be right for you, but you want some time to think about, may not be available when you've made a decision.

The figures also show that the number of mortgages available is on the rise, so you have more choice. While this is good news, it can make finding a mortgage overwhelming.

Combined with interest rates, which have increased significantly in the last year, navigating the mortgage market to find a deal that suits your needs can be difficult. Here are three ways working with a mortgage adviser in today's market could be valuable.

Contact us to talk about your mortgage needs

We're here to help navigate the mortgage market. We'll work with you to understand your needs and help find a deal that's right for you. Please get in touch to arrange a meeting.

1. A mortgage adviser will help you understand the type of mortgage that's right for you

Whether you're a first-time buyer or are remortgaging your current home, understanding the type of mortgage that suits your needs can be difficult. Should you choose a variable- or fixed-rate option? What term should you choose, and how would it affect your repayments?

A mortgage adviser can help you get to grips with the different options and explain the pros and cons of each. Having a clear idea about the type of mortgage you need means you can narrow down the market and focus on the deals that make sense for you.

2. A mortgage adviser will keep track of interest rates

One of the reasons mortgage deals are being pulled from the market so quickly has been the increasing Bank of England Base Rate.

Average interest rates are falling there are still large differences in the market, and even a small change could affect your monthly repayments and overall cost of borrowing.

If you borrow £200,000 through a repayment mortgage over 25 years with an interest rate of 3%, your monthly repayment would be £948 and over the full term you'd pay more than £84,000 in interest. If the interest rate increased to 5%, your monthly repayments would rise to £1,170 and you'd pay more than £150,000 in interest over 25 years.

So, working with a mortgage adviser to potentially access a lower interest rate could save you money in the short and long term.

Remember, it's not just the interest rate that's important when taking out a mortgage. Other factors, such as the ability to make overpayments, may be just as crucial depending on your circumstances.

3. A mortgage adviser understands the criteria of each lender

One of the challenges of getting a mortgage is not only finding a deal that's right for you but understanding how likely a lender is to approve your application.

Each lender will set its own criteria, from how much they're willing to lend relative to your income to the level of risk they will take. With lots of different options, including some that aren't well-known, finding this information and relating it to your needs can be challenging and time-consuming.

A mortgage adviser will take the time to understand your circumstances and select lenders that are more likely to say "yes" to your application.

If your situation isn't straightforward – perhaps you're self-employed or have a poor credit score – a mortgage adviser could also identify specialist lenders to help you reach your home ownership goals.

Choosing the right lender for you means you can have more confidence when you submit your mortgage application.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE OR OTHER LOANS SECURED ON IT.

OW4849 - Exp 27/11/2024

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What is critical illness cover?

Whether you need critical illness protection depends on your situation as well as any existing policies you might already have in place.

Critical illness insurance pays out a one-off, lump sum if you're diagnosed with a condition or disability that is covered by your policy. It can be offered when someone applies for life insurance – as extra coverage.

In a similar way to some life insurance plans, critical illness covers a set number of years. You can specify whether you want the payout to rise over the course of the term (so it keeps up with inflation) or the opposite – decreasing because your aim is to cover something specific like your mortgage.

If you're thinking about critical illness cover, it's important to speak to your financial adviser who can help you decide how much cover you'll need and how long the term should last.

What does critical illness cover?

Products vary depending on the provider. Certain illnesses are covered as standard by most insurers, including, cancer, heart attack, stroke, organ failure, multiple sclerosis, loss of arms or legs and Alzheimer's and Parkinson's disease.

Some providers may allow you to add additional illnesses to your policy, which you'll pay more for. Your children could also be covered as part of your policy so it's worth asking your adviser about these options if it's something you're keen to have in place.

What does critical illness not cover?

Although a diagnosis of a critical illness can mark the start of a claim in some policies, others may only begin to offer protection once your illness hits a certain level of severity. For example, if you are diagnosed with cancer, payments may only begin when permanent symptoms have been officially diagnosed. Additionally, not all types of cancer are necessarily covered by critical illness protection.

It's important to work with your financial adviser when reviewing a policy and all the small print before you commit to make sure you are sufficiently covered – and aware of areas not included.

Pre-existing conditions

Just like the life insurance application process, critical illness protection requires you to disclose any pre-existing conditions. If you don't then your policy could be invalid.

Your adviser can search the market for a suitable plan, but you'll probably have to pay more in premiums and there will likely be some extra exclusions. The price you pay will vary, based on things like age, occupation, state of health, lifestyle and how much coverage you need and for how long.

Do you need critical illness cover?

There are things to consider if you're worried about being diagnosed with a critical illness and the impact on your income and ability to keep up with bills (which would not be covered by state benefits when you're unable to work).

Your adviser will help you look at the following areas:

- Your employer's coverage – is there any paid leave for illness or disability and for how long?
- Do you have an existing life insurance policy and if so, does it have any illness coverage included?
- Could you consider income protection insurance as an alternative to critical illness?
- Do you have sufficient savings and investments you could use in place of critical illness cover?

If you want to proceed, it's important to work with your adviser to see how much protection you'll need. This means looking at your monthly outgoings and how much you and your family require to live comfortably. You might want to add in any potential costs from medical treatment you may need.

During these important decisions it's easy to lose track of the small details, which is why your adviser can help make the process easier for you and your family and give you some peace of mind.

We can examine your needs and existing policies and then find you the right cover that protects your finances – and your family – should anything happen.

OW4160 Exp. 27/09/2024

How to improve your chances of passing a mortgage affordability assessment

Getting on the housing ladder can feel like one of the hardest and longest processes in the world and the cost of living crisis is probably not helping. You need to come across as attractive buyers for lenders to consider you, but there are many factors that can reduce how much lenders are willing to let you borrow for your home.

How do lenders decide whether to offer you a mortgage?

If you're applying for a new mortgage, remortgaging or increasing your current mortgage, lenders are required to carry out an affordability assessment. This involves a variety of checks designed to make sure you can afford to repay what you borrow. According to the Independent, some two thirds of first-time buyers are rejected for a mortgage at their initial attempt. So, what can you do to boost your chances of passing an affordability assessment?

Evidence stable employment

Many lenders ask for three years' proof on income, although some will accept less. Even simply switching from one employed position to another can affect your chances of success. Some lenders like to see that you've been with an employer for at least three to six months before they'll consider you.

Reduce your debts

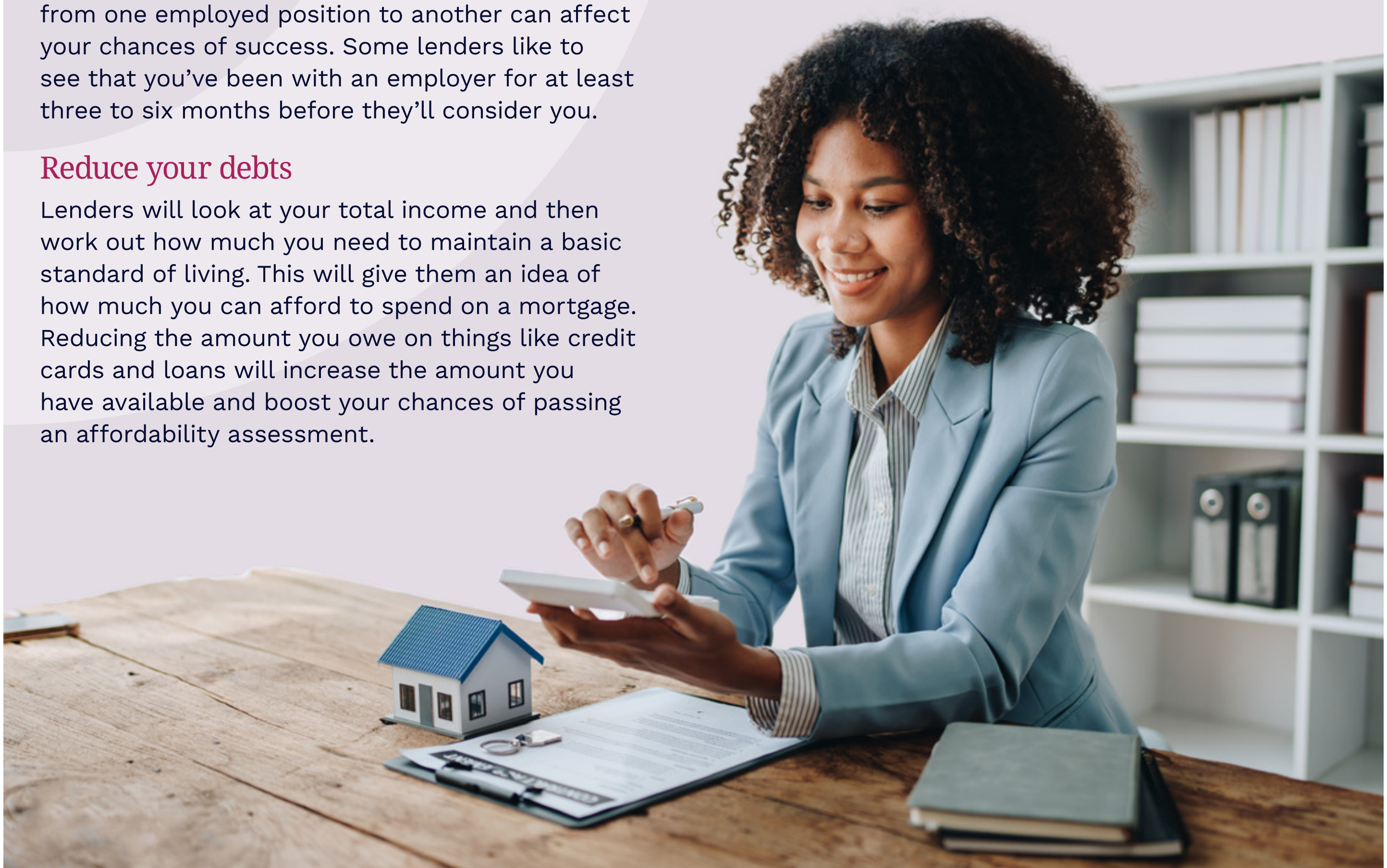
Lenders will look at your total income and then work out how much you need to maintain a basic standard of living. This will give them an idea of how much you can afford to spend on a mortgage. Reducing the amount you owe on things like credit cards and loans will increase the amount you have available and boost your chances of passing an affordability assessment.

Check your credit report

Before offering you a mortgage, lenders check your credit report. A poor credit history could affect the amount they're prepared to offer or cause them to turn you away altogether. However, there are simple ways to improve your credit rating. Before applying for a mortgage, check your credit report for errors, avoid applying for new credit in the six months leading up to the application and make sure you're well within any existing credit limits.

Get professional advice

Finding the right mortgage is important so we can assess your circumstances and get the right deal for you. We can save you the headaches and ensure you're less likely to be turned down for a mortgage.



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

New Mortgage Charter encourages lenders to provide you with more support

Banks and Building Societies have been encouraged by Chancellor Jeremy Hunt to offer more flexibility if you are finding it difficult to make mortgage payments. Mortgage lenders, the FCA, the Government as well as organisations such as UK Finance and the Building Societies Association have come together to provide you with a new Charter to give you reassurance and support through these tough times. They are committed to implementing this new Charter as soon as possible.

Lenders have an extensive range of measures they have agreed to, to help you if you're finding it difficult. Lenders don't want to repossess your home; repossession is either a last resort or when it is in your financial interest.

We are here to help you with any mortgage payment concerns you have. If you are currently in arrears, our advisers can work with your lender to get the support you need.

Under the new Charter, lenders' promises include:

- Helping and guiding you if you're worried about your mortgage repayments without it affecting your credit file.
- Supporting you in switching to a new mortgage deal at the end of your existing fixed rate without needing another affordability check, if you're up to up to date with payments.
- Providing timely information to help you plan if you're approaching the end of your current deal.
- Offering you tailored support if you're struggling, such as extending your term to reduce your payments, with the option to go back to your original term within six months. A range of other options are available depending on your circumstances such as switching to interest-only payments for six months, temporary payment deferral or part interest, part repayment.
- You won't be forced to leave your home without your consent, within a year from your first missed payment, and only in exceptional circumstances.
- From 10 July, if you're approaching the end of a fixed rate deal, you will have the option to secure a new deal up to six months ahead. You can also request a better like-for-like deal that's available with your lender up until your new term starts.

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

Approved by The Openwork Partnership on 06/07/2023.

OW4515 Exp. 06/01/2024

Is it better to gift a property or leave it in your will?

Before passing away, Maggie gifted her house worth more than £700,000 to her son Bruce but still remained living there, paying a token amount of rent. Nine years later, following Maggie's death, Bruce was surprised to be landed with an inheritance tax bill for the property.

What did Maggie do wrong?

Maggie knew if she died within seven years of gifting Bruce her house that he may well end up paying inheritance tax on it. She also knew enough to pay Bruce rent after gifting him the property. However, the amount she paid was well below the market rate and this is where she fell foul of inheritance tax laws. By only paying a token amount of rent, the house remained part of Maggie's estate and Bruce was hit with a hefty inheritance tax bill.

How to decide whether to gift a property or leave it in your will?

There are no easy answers to this. There are a lot of complicated tax rules to consider and the best approach will depend on your individual circumstances. Whatever the situation, it's an important decision and one best made as a family. We've looked at the pros and cons of both to give you an idea of the kind of things you'll need to consider.

Leaving a property in your will

The first thing to do is find out the residence nil rate band (RNRB) allowance for the property in question. If, like Maggie, you're leaving your main home to a child or grandchild, they'll benefit from an extra £175,000 tax-free allowance on top of the standard £325,000. This means you could leave an estate worth up to £500,000 and there'll be no inheritance tax to pay. And if you and your spouse are leaving a joint estate, that doubles to £1m.

Maggie's husband Bill died in 2019 and the executors of the estate can also claim Bill's residence Nil Rate Band. This means that the £675,000 can be claimed as an amount where no inheritance tax is applied, meaning this £675,000 remains inheritance tax free.

The benefits of leaving a property in your will are that you'll retain control of it, it isn't generally at risk from anyone else's divorce, death, or bankruptcy and, currently, there's no capital gains tax to pay for the beneficiary.

Working with a professional financial planner, it would have been possible for Bill to leave 'assets to the value of the Nil Rate Band' and have what is called a 'Will Trust' written into the will. As this is a specialist area, it is important to discuss with a professional and consider the options.

Gifting a property

If, as in Maggie's case, the property is worth more than the RNRB, you may want to consider passing full ownership to a child. You then need to move out or, as Bruce found out to his cost, pay rent at the going market rate.

There are many reasons people choose to gift a property: to minimise inheritance tax; to provide financial help to loved ones sooner rather than later; or to avoid care home fees. If you're considering it for the latter reason, you should be aware that anti-avoidance rules are designed to stop people doing this.

If you gift a property, you'll lose control of it. But once the transfer of ownership takes place, so begins the seven year countdown for removing the property from inheritance tax liability.

Right sizing

Another option for improving your quality of life into old age and helping the kids out at the same time is right sizing. In other words, selling the family home and buying somewhere that is easier to manage and better suits your needs as you get older. This option generally releases equity, which can be used to give loved ones a financial boost while you're still alive. Alternatively, you could investigate a lifetime mortgage as an option for releasing money to gift away now.

Insuring against inheritance tax

Another possibility Maggie could have considered is taking out whole of life insurance. This would have provided a tax-free lump sum on death to cover Bruce's inheritance tax bill. Writing the policy into trust would have ensured any payout wasn't included as part of Maggie's estate.

However, policies can be expensive and HMRC would have treated the premiums as a lifetime gift if Maggie paid them herself. Bearing this in mind and considering Bruce would have been the person to benefit from the insurance cover, it would have made sense for him to pay the premiums if he was keen to go down this road.

Key takeaways:

- When deciding whether to gift a property or leave it in your will, you need to focus on what you're trying to achieve.
- The benefits of leaving a property in your will are that you'll retain control it for the rest of your life, it isn't generally at risk from anyone else's divorce, death or bankruptcy and, currently, there's no capital gains tax to pay for the person who inherits it.
- Gifting a property can be used to minimise inheritance tax and allow you to provide financial support to loved ones before your death.
- Right sizing may improve your quality of life and release equity.
- It's possible to insure against inheritance tax but it can be expensive so it may be more appropriate for beneficiaries to pay the premiums.
- Professional advice can help you and your loved ones understand the various implications of the different options and allow you to make informed decisions.

The importance of professional advice

As you can see, estate planning is far from straightforward so it makes sense to work with a financial adviser who can look into different scenarios and help you and your loved ones make informed decisions.

Get in touch

If you'd like help to create a financial plan to structure your assets to be more tax-efficient before your death, we can help. Please get in touch to arrange a time to chat.

OW4548 Exp. 19/07/2024

The benefits of starting a pension early

It's never too early to start saving for retirement. In fact, the sooner you start saving, the more time for your money to grow.

Starting a pension early is one of the best things you can do for your financial future. By taking advantage of the benefits of early retirement savings, you can ensure that you have a secure financial future and enjoy your retirement years to the fullest.

More time to save

One of the most significant benefits of starting a pension early is the additional time you have to save money. The longer your money is invested, the more time for it to grow, which can help you accumulate a larger retirement fund. Starting early also means that you can take advantage of compound interest, which is interest earned on both the principal and the accumulated interest. Over time, compound interest can significantly increase the value of your pension fund.

Lower monthly contributions

Starting a pension early can also help you keep your monthly contributions lower. Because you have more time to save, you can spread your contributions over a longer period. This can make it easier to budget for your retirement savings and ensure that you are putting away enough money to reach your retirement goals.

Employer contributions

If you are enrolled in a workplace pension scheme many employers offer to match employee pension contributions, (up to a certain percentage). This 'free money' can help you save even more for retirement.

Tax benefits

The government offers tax relief on pension contributions, which means you can put more money into your pension each month. For example, if you're a taxpayer, you can get up to 60% tax relief on your contributions.

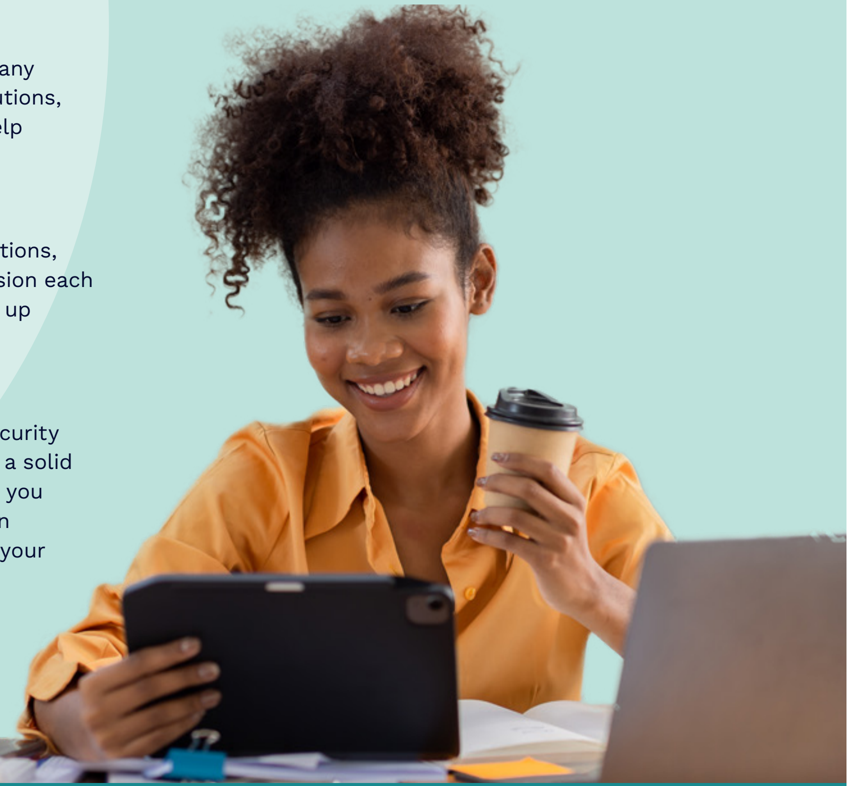
Financial security

Starting a pension early can help provide financial security in retirement. By starting to save early, you can build a solid foundation for your retirement years and ensure that you have enough money to cover your expenses. This can help alleviate financial stress and allow you to enjoy your retirement years without worrying about running out of money. Knowing that you have a secure financial future can give you peace of mind and allow you to enjoy your retirement more.

Tips for starting a pension early:

- **Set up a regular contribution**
  The best way to make sure you're saving for retirement is to set up a regular contribution. This could be a fixed amount each month or a percentage of your salary.
- **Increase your contributions as you earn more**
  As your income increases, you can increase your pension contributions to make sure you're on track for a comfortable retirement.
- **Take advantage of tax relief**
  The government offers tax relief on pension contributions, which means you can put more money into your pension each month.
- **Consider employer contributions**
  Many employers offer to match employee pension contributions, which is free money that can help you save even more for retirement.

By giving yourself more time to save, keeping your contributions manageable, taking advantage of tax benefits, and providing financial security in retirement, you can set yourself up for a comfortable and fulfilling retirement. So, if you haven't started saving for retirement yet, now is the time to start!



The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.