



# VIEWPOINT

PIA FINANCIAL SOLUTIONS

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# 'Mortgage prisoners' may be able to remortgage

You may have heard the term 'mortgage prisoners' but not know exactly what it is. Mortgage prisoners are those who are trapped in their current mortgage deal and are unable to remortgage or move.



## How did Karen and Richard become mortgage prisoners?

"Unfortunately my work circumstances changed last year, meaning Karen and I can't pass the affordability check. If we were able to switch we could save a lot of money by having a lower interest rate."

The Financial Conduct Authority (FCA) has estimated around 150,000 borrowers are stuck as 'mortgage prisoners'. Some of the main reasons are —

- **A change in circumstances, such as credit issues or a lower income since they bought their home.**
- **Not meeting the affordability rules which changed in the 2014 Mortgage Market Review**
- **Negative equity - which could be due to the 2007/08 financial crisis**

Being stuck on your current mortgage deal can be a costly frustration. Those that come to the end of their existing deal may be moved onto a lender's Standard Variable Rate which can be expensive, with average rates higher than many available deals. In some cases, this could be more than double the rate of interest.

## There may be hope on the horizon...

After a campaign by a group of 'mortgage prisoners', who originally mobilised via social media, the FCA has proposed plans to help people move to a cheaper deal.

Customers who are both up-to-date with payments and looking to remortgage without additional borrowing will be given a more appropriate affordability assessment to assert whether they can afford the new loan. This will make it easier to find the right mortgage for their needs. The FCA is also asking lenders to work with more innovative tools to help customers better identify what mortgages they may qualify for.

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



Price cap for properties eligible for Help to Buy Equity Loan Scheme from April 2021 to March 2023:



# More hope for first time buyers with the Help to Buy Extension

Since it was launched in 2013, the popular Help to Buy scheme has enabled almost 170,000 households to buy homes; who may not otherwise have been able to.

An extension to the successful scheme was announced in the Autumn 2018 budget, now making it available until 2023 for first time buyers only 'to ensure future support is targeted at those who need most help'.

This could benefit tens of thousands of extra buyers who are purchasing a new-build property, who under the scheme can get an extra 20% (40% in London) government loan, which is interest free for five years. If they also secure a mortgage from a bank or building society for 75% (55% in London), this means buyers themselves need to only find a 5% deposit.

As part of the changes, the government has also introduced new caps on house prices for qualifying properties in different regions, to reflect the huge variations in prices across the country. London will continue with a £600,000 cap, whereas the caps in other regions have been changed to 1.5 times the average forecast first time buyer price in an area.

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# Considerations for first-time buyers

Being a first-time buyer can be daunting. Not only are you about to make one of the biggest financial decisions in your life, but you'll probably also have family members and friends offering their ideas on the right house, mortgage, lender conveyancer and even removal company for you.

We've put together some ideas to try and take away some of the stress and confusion and give you confidence to move through the home buying process as smoothly as possible.

## Get the right advice

Of course we're going to say that - it's what we do! We'll review your circumstances and look at your income, debt, day-to-day outgoings, employment and the size of your deposit, to assess what you can afford to borrow now and in the future. We'll talk you through the types of mortgage we think are right for you and the lenders who offer them.

## Save as much as possible

Buying a house is going to be expensive so it's important to save, save, save and save some more to get yourself in the best position possible.

Many lenders will accept a minimum deposit of 5% of the cost of the house you're buying, but aim higher. The bigger your deposit the smaller the mortgage (and monthly mortgage payments) making you more attractive to a lender.

**Talk to us and we can help with practical financial advice on your first and future home purchases.**



## Know your budget

Your hard-saved deposit and monthly mortgage repayments aren't the only expenses you need to be mindful of when buying your first home:

Some lenders will charge for a **valuation fee** to help them establish how much they are prepared to lend you.

You'll also need to factor in the cost of a **survey** (depending on the type of property you're buying and the lender you choose to go with you might need a basic mortgage valuation, a homebuyer's report or a full structural survey).

In Scotland you also need to budget for **Land and Buildings Transaction Tax** and in Wales you'll need to budget for **Land Transaction Tax**. If you live in England or Northern Ireland, you won't pay any **Stamp Duty Land Tax** on properties worth up to £300,000.

You'll also need to pay your **solicitor** or **conveyancer** for any legal work and local searches they do on your behalf.

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



# Borrowing options in your later years

Retirement is an exciting time; the start of a new chapter in life. Whilst we will have worked, saved and prepared for this moment for a long time, many of us will find we don't quite have enough money to fund all the things we planned to do.

Luckily, there are an increasing number of options for borrowing in your later years, enabling people to stay in their homes for longer and help fund their retirement lifestyle.

## Mortgage

One option is a traditional residential 'capital and repayment' or 'interest-only' mortgage. Many lenders have increased their upper age cap limits in recent years, enabling mortgages to now be applied for by people up to 80 years old and allowing mortgage terms that end when a customer is up to 85 years old.

You'll have a better chance of being accepted for these mortgages if you have a good credit history. Your income will need to be high enough to easily cover the mortgage payments, so lenders will be looking for proof of pension income. This is easier to do once you are retired. However, if you are yet to retire, your pension provider can give confirmation of your expected retirement date, current pension pot and expected retirement income. The mortgage provider will also be interested in other income you may have, such as from shares and property investments.

## Equity Release

Another option is equity release. With an Equity Release Mortgage, you borrow an amount against a part-share of your home, either as a one-off lump sum or a monthly income.

You still own your home, and the payment can be used for a variety of purposes. These are, most commonly, to pay off an outstanding mortgage, pay for a major purchase or unexpected cost, or simply to help fund your retirement.

## Lifetime Mortgage

A Lifetime Mortgage differs to a traditional Residential Mortgage as payments do not need to be made throughout the term of the mortgage. Instead, the total amount borrowed plus the interest is repaid when the house is sold, which is usually after the borrowers have moved into a care home or passed away.

Both Equity Release and Lifetime Mortgages will impact elements such as how much inheritance you have available to pass on, eligibility for state benefits and your tax position.

Each of these borrowing options suits different circumstances so you must carefully consider which would be best for you in your later years.

You will need to take legal advice before releasing equity from your home as Lifetime Mortgages and Home Reversion plans are not right for everyone. This is a referral service.

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# Is joint life cover best for couples?

If you want to help make sure your loved ones will have financial security if you pass away, life insurance cover is the answer. But, if you're part of a couple and you both need cover, should you take out single policies, or a joint policy that covers both of you?

With a single life policy, the insurer would pay out on the death of the policyholder and the policy would then lapse. With joint life insurance, however, the cover will apply to both policyholders and would pay-out either on the first or second death, depending on how the policy is set up.

Before you decide whether to take out single or joint life insurance policies, you'll need to decide what type of cover you need, and this will depend on your circumstances:

- **Term Assurance:** pays out a lump sum if you die within the agreed 'term' (ie. the amount of time you've chosen to be covered for). Term Assurance is typically taken out to protect a mortgage and, as such, can come with a level, or decreasing, sum assured - the latter reducing as you pay off your mortgage.
- **Whole of Life Insurance:** pays out a lump sum when you die, whenever that is - as long as you're still paying the premiums.

- **Family Income Benefit Insurance:** pays out a regular income, instead of a lump sum, to provide ongoing financial support for those who depend on you.

You could also add critical illness cover to your life insurance policy, which means you'll get a pay-out if you're diagnosed with a serious illness and your claim is accepted. The type of conditions covered can include cancer, heart attack and stroke and will depend on the insurance provider.

## Weighing up the benefits

Once you've agreed on the right type of cover, there are a number of other factors to consider to determine whether single, or joint life cover is best for you and your other half, including:

- **Cost:** a joint life policy may be less expensive than two single life policies. Level of cover - if your partner earns more than you you might want them to have a higher level of cover, since the financial impact of their death would be greater than yours. In this respect two policies may be better as they will have different sums assured.
- **Existing cover:** either, or both of you may have existing life cover through your employer, or an existing plan. It's important to check what's already in place so that you have a true picture of your protection shortfall. You don't want to pay for something that's already covered.
- **Your relationship:** It's not necessarily something you want to think about but some insurers include a separation benefit. This means if your relationship breaks down during the policy term, you could cancel it and start two individual policies without having to provide additional medical information.



**If you're not sure whether single or joint life cover is best for you, or you'd like to review your existing cover, please get in touch.**

# Income Protection claims

You might believe you'd be more likely to call on your income protection policy later in your working life, but data from protection insurer, The Exeter, show their *average claimant was 40, and on certain products, just 33.*

Income protection is designed to pay an income if you're unable to work as a result of an accident, illness, or, with some policies, unemployment. The benefit usually kicks in after what's called a deferred period and can last until you're able to return to work or you retire.

## Cover for physical, and non-physical conditions

Every year, one million workers will have to stop work due to prolonged sickness or injury, but the number having to take a break because of mental health issues is sadly growing. As well as revealing the surprisingly young age of some of their claimants, The Exeter said that mental health-related issues were accounting for a growing number of its claims; reaching 10% in 2018.

The Association of British Insurers (ABI) had previously reported that mental health was the most common cause of claim on income protection policies in 2017; perhaps unsurprising given that one in four of us in the UK will be affected by a mental health problem in any given year.

Whether your reason for claiming on your income protection policy is physical or mental, having cover in the first place is crucial – especially if you have a mortgage or people who rely on your income.

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## Income protection tips

Check if your employer provides cover as part of your employee benefits. If so, how much do they provide and for how long?

If you need to take out separate cover, don't leave it too long; the younger you are, the cheaper the policy.

Make sure the cover you take out complements your existing cover. For instance, if your work policy ends after six months, choose a six-month deferred period.

If you're self-employed, you might consider a shorter deferred period since you'll have no employer's cover. You might have savings that could see you through the first few weeks or months of being unable to work.

**If you'd like to find out more about the features and benefits of income protection, please get in touch.**



# You're not average

## What does average look like?

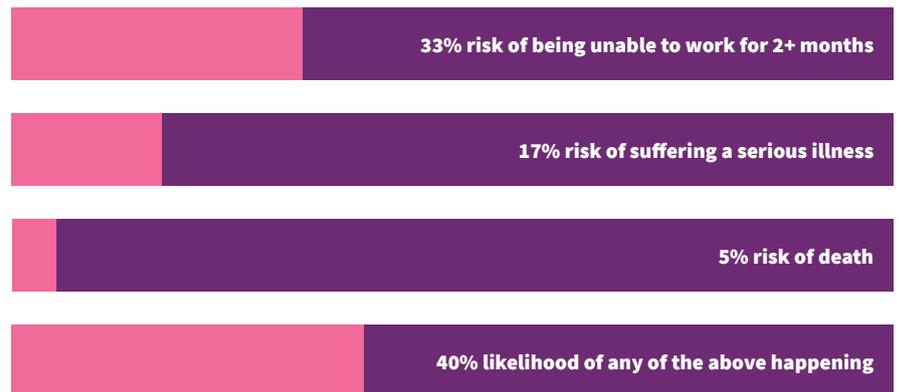
Information released by the Office for National Statistics shows the average British man, Mr Average, is 38, will live to 85 and earns £31,103. The average British woman, Ms Average, is 40, will live to 88 and earns £25,308.

The LV= risk reality calculator gives you a rough idea of your risk of being unable to work for two months or more, suffering a serious illness, and death.

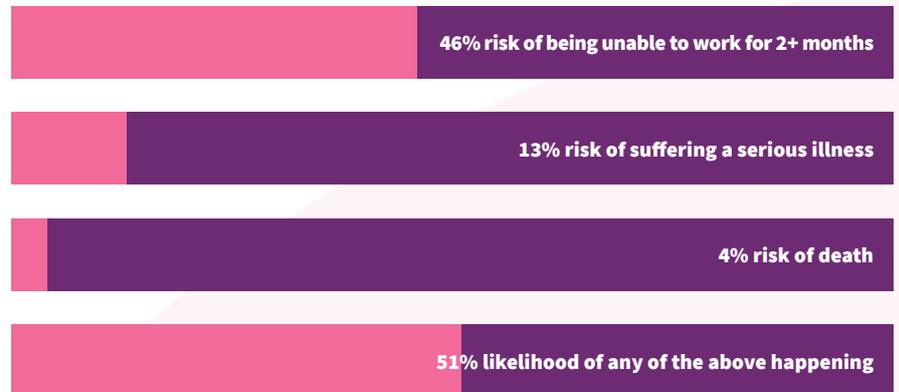
Running the details of Mr and Ms Average through the calculator uncovers some startling statistics of what life might look like for them before retirement at age 68.

## What might be in store for you before the age of 68? (Based on a non-smoker, according to population and industry statistics)

### Men



### Women



These statistics highlight the importance of all of us taking responsible steps to mitigate the financial impact these risks may have on you or your family. While we can't wrap ourselves up in cotton wool we could consider Income Protection, Critical Illness Cover and Life Insurance policies as part of a protection portfolio.

## Income Protection

Income Protection pays out a regular monthly income to you should you be unable to work due to an injury or illness.

## Critical Illness Cover

Critical Illness Cover pays a one-off lump sum on diagnosis of any of the serious illnesses specified in the policy terms.

## Life Insurance

Life Insurance can pay a one-off payment or a regular income to your partner or dependents when you die.

If this has given you some food for thought, and you'd like to learn more about your risk, visit <https://riskreality.co.uk/openwork>.