

Spring 2005

the mortgage

The mortgage bulletin from Hancocks Mortgage Services

Covering mortgages and much more...

If you want to tidy up your finances, this could be simpler to fulfil than you might think.

...on your finances

» It has never been quicker or easier to arrange a **secured loan** to mop up any expensive credit card debt. And there's no need to feel ashamed about debt, we are all borrowers and savers these days.

The average non-mortgage debt held by each adult in the UK is nearly £4,500 - according to Datamonitor. And, they feel that the average UK adult per head debt will reach an estimated £5,741 by 2008.

Around 67m credit cards are in circulation in the UK, with many individuals having two or more cards, which means that it is easy to accumulate such a high level of borrowings. But providing you know how to manage your debt cost-effectively, and do not borrow

too much, it should not become a problem or a worry to you.

For instance, secured loans may normally be charged at far lower interest rates than the average credit or store card. The actual rate you are charged will depend on your credit rating and the amount you wish to borrow compared to the value of your property.

And as a secured loan is set over a specific timeframe, it's an effective, disciplined way to pay off your borrowings.

Alternative to remortgaging

A secured loan - which is a second charge on your home - can also be an option if your existing mortgage lender will not extend you further credit, or if

you face an early repayment charge by changing your mortgage.

In this case, it may be sensible to keep your existing mortgage arrangements intact and to pay a slightly higher charge on a secured loan.

It's important to talk to us, so that we can identify the best way forward for you.

Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on your mortgage. Also, some of these loans carry early repayment charges and could mean an extended period of borrowing.

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Welcome.... to this newsletter, which covers some of the key issues of the moment that affect mortgages and mortgage-related products - and sets out how it **may help you**.

Inside, we look at the benefits of **Equity Release**, and show how parents can help their offspring to **buy a property when at university**.

And why not have a **Mortgage Health Check**, to see if there are better options out there for you. Enjoy this issue and do let us know if you have any questions.

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My kid

– the student landlord

Parents are increasingly helping their student offspring to buy property as a way of assisting them with accommodation costs while at university, as well as funding what could be an excellent long-term investment.

» By acting as guarantor for your children's mortgage, he or she can buy a property in which they can live while they study and help towards the monthly mortgage payments by letting out the spare rooms to friends.

By putting down a deposit of around 25 per cent of the purchase price, a number of lenders will allow sub-letting, but you should remember that as guarantor, you are jointly and severally liable for the mortgage with your offspring, and may have to put up your home as security.

Tax benefits

There are, however, numerous potential tax advantages to being a student landlord and given that your child will be letting to their friends, they are more likely to look after it and pay their rent on time, than if you rented out the property to complete strangers. At least that's what you'd hope!

Because students have their own personal tax allowances, both the rental income and much of the capital gains can be taken tax-free.

By taking out an interest-only mortgage, the mortgage interest can be offset against the rental income, which may wipe out any income tax liability altogether.

Meanwhile, because the property will be partly your offspring's principal residence and partly a buy-to-let property, there are several capital gains tax (CGT) reliefs which can be exploited to significantly reduce, or eliminate, any

CGT on sale. Although you should take advice from an accountant before considering investment properties.

However, this could make buying a property in this way potentially a superb investment, particularly if it is in a desirable university town such as Edinburgh or Bath, which may benefit from substantial capital appreciation as well.

Guarantor mortgages are specialist mortgages, but we can source these for you, so why not get in touch to find out more.

Here's a ready reckoner for you, so that you can work out potential mortgage payments against a range of interest rates.

Payments calculator

With an **interest-only mortgage**, you only pay interest during the term of the mortgage, while paying into a separate saving scheme (ISA, pension, endowment, or other savings vehicle) to build up a lump sum to pay off the capital. However, do bear in mind that most savings schemes do not guarantee to repay the mortgage.

Repayment mortgages require you to pay off part of your capital and part of the interest on your loan each month, so the monthly amount you have to pay to the lender is higher than for an interest-only mortgage.

But with a repayment mortgage, you don't need to take out a savings plan alongside the mortgage because the capital will have been paid off by the end of the term, provided you have made all the monthly repayments.

The figures to the right show the cost of paying both interest-only (excluding any payment to a savings scheme) and repayment mortgages.

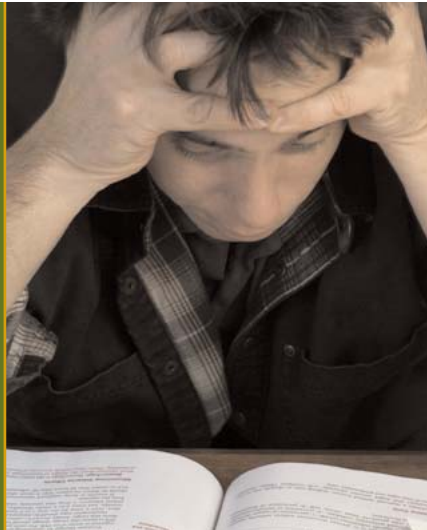
Here's how to use the calculator: A £100,000 mortgage over 25 years charged at a 6.75% interest rate would cost 100 x £6.90 (for repayment) = £690 per month.

Monthly payments for a mortgage per £1,000 borrowed over 25 years

% Interest rate	Interest-only Payment (£)	Repayment Payment (£)
4.00	3.33	5.27
4.25	3.54	5.41
4.50	3.75	5.55
4.75	3.96	5.70
5.00	4.17	5.84
5.25	4.38	5.99
5.50	4.58	6.13
5.75	4.79	6.28
6.00	5.00	6.44
6.25	5.21	6.59
6.50	5.42	6.75
6.75	5.63	6.90
7.00	5.83	7.06
7.25	6.04	7.22
7.50	6.25	7.38

Source: Halifax

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With thousands of mortgage products out there and a multitude of product types, it's no wonder people get confused. Here's a brief outline of some of the key questions that are asked. However, you may have further queries, so get in touch and we can hopefully provide the answers to meet your needs.

BACK TO BASICS

Q: What type of mortgage should I go for?

A: There is a plethora of different mortgages out there and you should take advice as to which is best for you. The difference between interest-only and repayment mortgages is already explained on page 2. Thereafter, you need to consider the relative merits of fixed, capped, discount, offset and tracker mortgages. As a yardstick, you should aim to pay an interest rate which is lower than the lender's standard variable rate (SVR).

Q: How much will I actually have to pay each month?

A: You will be told how much your monthly repayments will be, and also shown the impact of higher interest rates, so you can check affordability.

Q: What is the APR?

A: This stands for Annual Percentage

Rate and is designed to reflect the true cost of the loan over the period of borrowing. The APR takes into account the interest charges and other costs such as administration and arrangement fees.

Q: What does LTV mean?

A: This stands for loan to value and is the percentage of the purchase price of the property represented by the mortgage offered. Most mortgages have a maximum loan to value of 90-95 per cent.

Q: What happens at the end of a fixed/discounted rate period?

A: You'll most likely be switched to the lender's SVR. Although you should establish if you'll be allowed to take another discounted/fixed rate deal. This is why it is important to check out your lender's SVR to see how competitive it is compared to other lenders in the market.

Q: What are early repayment charges?

A: These are charges which are made if you decide to pay off certain types of mortgages (usually fixed, capped and discounted) within a set period. These penalties can be extremely costly, so check carefully how long they apply. Some lenders charge redemption penalties even after the end of the special rate, so be sure to find out exactly how much it would cost you to move during the product term.

Q: Do I have to pay Higher Lending Charges?

A: Some lenders may charge this if you're borrowing more than 75 per cent of the property's value. They are expensive and for the benefit of the lender in the event it has to repossess the property and sell it at less than the outstanding mortgage debt. However, not all lenders insist on them and they are best avoided in most situations, even if you may have to pay a higher interest rate.

PLEASE GET IN TOUCH WITH ME!

I would like to discuss the following ticked topics with you. I understand that the request is without obligation. Also, by providing my telephone number, I give you permission to call.

- Secured Loans Buying second home First-Time buyer
 Equity Release Remortgage choices Buy-to-Let
 Insurance products Protection products Mortgage Health check
 General mortgage information

Other (please specify) _____

Please do not send any further issues

Name (Mr/Mrs/Ms) _____

Address _____

Email _____

Tel no. (and the best time to call) _____

Please put the coupon in an envelope and post to:

Hancocks Mortgage Services, The Office, 89 Howard Avenue, Bexley, Kent DA5 3BA

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We provide an information and advice service. We will confirm our recommendations in writing. We charge a fee of between £250-£500, depending on client circumstances. This fee is refunded if the loan is not offered. We will also receive a fee from the lender and will advise you in writing of the amount.

■ The contents of this newsletter are believed to be correct at the date of publication (January 2005).

■ Every care is taken that the information in *The Mortgage* newsletter is accurate at the time of going to press. However, all information and figures are subject to change and you should always make enquiries and check details and, where necessary, seek legal advice before entering into any transaction.

■ The information in this newsletter is of a general nature. You should seek professional advice tailored to your needs and circumstances before making any decisions.