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NEWSLETTER FROM A1 FINANCIAL SOLUTIONS

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MORTGAGE AND SAVINGS RATE CHANGES

How the interest rate rise may affect you

The Bank of England has raised the base rate from 0.5% to 0.75% – only the second rise in over a decade. Here's what it means for your finances, including the very latest on how individual banks' mortgage and savings rates are changing.

The base rate is the Bank of England's official borrowing rate, i.e. what it charges other banks and lenders when they borrow money – and it influences what borrowers pay and savers earn. The recently announced increase follows a rise last November from 0.25% to 0.5%.

The Bank's Monetary Policy Committee (MPC) voted 9–0 to raise the rate, and said that future rises 'are likely to be at a gradual pace and to a limited extent'.

Some key need-to-know points for your finances:

MANY MORTGAGE RATES WILL RISE

If you're on a standard variable rate mortgage, your rate is very likely to go up; if you're on a 'tracker' mortgage, it definitely will. So if you're a mortgage holder, urgently check if you can save thousands of pounds by remortgaging before the best deals disappear. If you're on a fix, your rate won't change for now, – however, when it ends and you remortgage, rates may have risen.

FOR SAVERS, THE RATE RISE IS GENERALLY GOOD NEWS.

It should push best-buy rates up on both savings accounts and ISAs, so if that happens you may be able to earn more by ditching and switching. Banks may also increase variable rates, though it's far from guaranteed – if you're currently on a sub-standard rate, you may be best off switching now.

Loans will be mainly unaffected, though rates for new borrowers could rise.

If you currently have a loan, it's almost certainly at a fixed rate, so there's no impact. But best-buy rates for new borrowers could rise soon.

WHAT DO MORTGAGE HOLDERS NEED TO KNOW?

If you're on a fixed-term mortgage, you won't see any immediate change. However, if your deal ends soon, the one you move to may cost more.

If you're on a standard variable rate (SVR) or 'discount' mortgage, your mortgage is likely to rise by 0.25%, therefore loosely following the base rate. Such a jump could cost £180+/yr more per £100,000 of mortgage. However, SVRs are set by individual lenders, so you'll need to check what yours is doing and when any changes will come into effect. About a quarter of mortgages – roughly 1.8 million – are on an SVR.

If you're on a tracker mortgage, your rate will definitely rise by the same amount as the base rate – 0.25%. Exactly when this happens will depend on your lender, though – some have already put them up, while others have said they will increase in September. Roughly 1.3 million mortgages are trackers.

The key points for mortgage holders are:

• If you're on your lender's standard variable rate, you're likely massively overpaying – the average SVR is 4.24%, yet the top two-year fixed mortgage right now is just 1.35%. The difference in cost is over £2,500 per year on a typical £150,000 repayment mortgage, with 25 years remaining. Even if you were to switch fees, you'd likely make a massive saving

• If you need to remortgage, this could be a unique window of opportunity – if you're looking to get a better deal for your existing mortgage, it's worth looking ASAP, as rates may be about to rise. The rates of the best new fixed deals have already started creeping up in the last few months. This is likely because lenders set them based on City swap rates (long-term predictions of interest rate trends), which have been pointing upwards.

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

CONTACT US FOR FURTHER INFORMATION

As part of our service, we take the time to understand our clients' unique needs and circumstances so that we can provide them with the most suitable solutions in the most cost-effective way. If you would like to discuss the range of services we offer, please contact A1 Financial Solutions for further information.

INHERITING PROPERTY

Three key steps you should take

Have you recently inherited a property? Or were you moving house and couldn't find a buyer so you decided to keep hold of your former home? Perhaps you have moved in with your partner and now find yourself becoming an unexpected landlord.

Many people will see it as a huge bonus to have a property that gives you extra income and that goes up in value over the years. But the reality for some is that it's anything but plain sailing, especially for those who never thought of being a landlord and are suddenly dropped into a minefield of lettings legislation and tax liabilities.

There are over 150 laws that govern the lettings industry, and if you don't know what they are, you could easily – and completely unintentionally – break them. But ignorance is no excuse, so you'll need to find out what your obligations are and be prepared to have to spend some money to make sure the property can be legally let. Apart from potentially breaking the law, if you don't have the right health and safety procedures, you could be putting your tenants in danger.

On top of that, if you're not used to handling financial investments, you probably unsure about the most tax-efficient way to own an investment property and take additional income. That means you might not be filing correct tax returns and could end up with large bills in the future. There's also the risk that if you don't know about the costs associated with running a Buy-to-Let property and haven't budgeted ahead, you may even find yourself struggling financially on an ongoing basis.

In this article, we have highlighted the most important things for you to do to make sure this unexpected rental property you're now responsible for enhances your finances and doesn't land you in hot water with the local authority.

1. SPEAK TO A FINANCIAL ADVISOR AND PROPERTY TAX SPECIALIST

As soon as you know you're going to own a property that you intend to rent out, take some financial advice from property experts. They can advise you of the best way to own the property and take profits, both in terms of rental income and equity. You should also take some legal advice on ownership, particularly if you've inherited a property that you'd like to pass on to children or other family.

2. CONSULT A BUY-TO-LET SPECIALIST MORTGAGE BROKER

It's very important that the property is correctly mortgaged. If it used to be your home and you had a mortgage on it, you'll need to let your lender know that the situation has changed so they can move you over to a Buy-to-Let mortgage. You cannot have a standard residential mortgage on a property that isn't your primary residence.

The best way to move forward is to speak to a specialist mortgage broker who can look at the mortgage that's currently on the property, then check the whole market to find the best deal for your new circumstances, which may mean switching lender.

Even if the property is mortgage-free, it's a good idea to take financial advice to find out if it might be worth taking out a mortgage and releasing some equity. If the rental income you can achieve is several times any mortgage payment, you might be able to make the capital work better for you elsewhere.

3. USE A GOOD LOCAL AGENT TO LET AND MANAGE THE PROPERTY

Some people believe agents are all the same and their fees are an unnecessary expense. In fact, the opposite is often true: as long as you choose the right agent, the cost of their services could not only represent good value for money but could also be tax deductible.

A responsible letting and managing agent will hold membership of a professional industry body, which means they're properly trained and qualified, they abide by a code of conduct, and they protect your money through Client Money Protection insurance.

Of course, it's possible for you to let and manage a property yourself. But with new rules coming in all the time, and the law soon due to change so that all agents must be regulated, it's becoming increasingly risky for owners of more than one property to attempt to handle everything themselves. And when you consider how much time and money you'd have to spend learning and keeping up with your legal obligations, when you're probably already working in a full-time job, it really is worth paying professionals who can take most of the legal and administrative responsibility off your hands.

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

ACCIDENTAL LANDLORDS

How to let your home rather than sell

Contrary to popular belief, not every landlord is in the property business by choice. People's circumstances often change, resulting in the need to move house but not sell up.

Some people temporarily move abroad for work, while others let a property when they move in with a partner or when elderly parents move into long-term care.

A slow property market, combined with Brexit uncertainty, means many people are now more likely to hang on to homes while they wait for the house price dust to settle, even if they need to rent elsewhere.

We give the legal, financial and practical low-down for these 'accidental landlords' on letting out their property.

1. MORTGAGES AND TAX

Accidental landlords are not allowed to simply rent out their property and keep their residential mortgage. To let a property without falling foul of your mortgage lender, you need either the lender's 'consent to let' or a specialist buy-to-let mortgage.

Buy-to-let lenders typically require the rent to cover 125% of the mortgage repayments. So if your mortgage is £1,000 a month, you would need a rental income of at least £1,250 a month. Most lenders demand a deposit, or equity, of at least 25%.

There are also higher mortgage arrangement fees – often a percentage of the loan amount, rather than a fixed sum.

The way landlords are taxed began to change in April 2017. Under Section 24 of the Finance Act, there is a gradual tapering down in the tax relief that allows landlords to offset the cost of mortgage interest against their rental income.

Last April saw this tax relief reduce to 50% It will drop again – to 25% – in April

2019, and then to 0% in April 2020 when it will be replaced by a tax credit worth 20% of mortgage interest.

2. FINDING A TENANT

Attracting the right tenant can mean the difference between a stress-free experience and a constant headache. The ideal tenant will pay the rent on time each month, abide by the terms of the tenancy agreement, and co-operate if the property needs repairs.

Landlords should thoroughly check out potential tenants before committing to a tenancy. This means carrying out a credit check, seeing payslips or bank statements to assess affordability, and getting references from previous landlords.

The Immigration Act 2014 puts the onus on landlords to check a tenant has the legal 'right to rent' in England. Landlords can be fined up to £3,000, or even be sent to prison for up to five years, if they let a property to illegal immigrants.

3. LETTING AGENTS

Many landlords hire a letting agent to either find a tenant or manage the whole tenancy. Using a third party means you will not be bothered by maintenance queries or late rent payments, but handing over the reins comes at a cost.

Agents typically charge 10–15% of the rent to fully manage a property, but many charge extra fees for signing or renewing contracts, obtaining references, making credit checks, and dealing with inventories.

4. TENANCY CONTRACTS

Most private landlords let property on an assured shorthold tenancy agreement. Such agreements normally have a fixed term of six or 12 months, then continue on a rolling monthly basis or are renewed for another fixed term.

Landlords could be forced to offer tenants three-year tenancies if new government proposals become law. Plans under consultation mean landlords would be tied-in for three years, but tenants would be able to leave before the end of the minimum term.

Attracting the right tenant can mean the difference between a stress-free experience and a constant headache. The ideal tenant will pay the rent on time each month, abide by the terms of the tenancy agreement, and co-operate if the property needs repairs.

The aim is to give renters more security. Landlords are generally opposed to the plans, which will make mortgage lenders wary about approving loans.

5. EVICTING A TENANT

Assuming you have an assured shorthold tenancy in place, landlords must follow procedures set out in the Housing Act 1988 to evict a tenant. You can issue a section 21 notice if you want the property back after a fixed term ends, or a section 8 notice if the tenant has broken the terms of the tenancy.

In either case, if the tenant does not leave when requested, you will need a possession order from a court to regain possession of the property.

6. DEPOSIT PROTECTION

Most landlords ask tenants for a deposit equal to four to six weeks' rent to cover damage to the property or unpaid rent.

The deposit must be protected in one of three government-approved deposit protection schemes: the Deposit Protection Service, MyDeposits, or the Tenancy Deposit Scheme. These schemes all run dispute resolution services which can step in if the landlord and tenant cannot agree on deductions from the deposit at the end of a tenancy.

Landlords who fail to protect a deposit risk having to pay their tenants compensation of up to three times the deposit amount, and will not be able to evict them using a section 21 notice.

7. VITAL PAPERWORK

Landlords are governed by more than 100 pieces of legislation, many of which relate to paperwork that must be in place at the beginning of a tenancy.

Landlords need to give tenants the following documents:

- A copy of the Government's 'How to rent' guide
- A copy of the deposit protection certificate
- An energy performance certificate
- A gas safety certificate

Landlords must also arrange for a smoke alarm to be fitted on every storey of the property, and a carbon monoxide detector to be installed in any room where solid fuel is used.

8. INSURANCE

Normal residential home insurance will not be valid once a property is let out.

Owners need specialist landlord insurance to cover the building and any contents they own, such as furniture.

There are various extras that can be added to the policy, including liability cover if a tenant is injured in the property, legal cover to recoup unpaid rent, and loss of income in the event the property is left uninhabitable, such as following a flood or fire.