SIMPLY MORTGAGE

NEWSLETTER FROM A1 FINANCIAL SOLUTIONS

JUNE 2021	ISSUE #14	SUMMER

MORTGAGE GUARANTEE SCHEME

Need help to buy your first home with a 5% deposit?

TO FIX, OR NOT TO FIX

Could a fixed rate deal be the right type of mortgage for you?

IS YOUR HOME WORTH MORE THAN YOU THINK?

7 in 10 homeowners do not know the true value of their home

MORTGAGE GUARANTEE SCHEME

Need help to buy your first home with a 5% deposit?

The coronavirus (COVID-19) pandemic led to a reduction in the availability of high loan-to-value (LTV) mortgage products, particularly for prospective homebuyers with only a 5% deposit. This has resulted in many households being unable to get onto the housing ladder.

Access to finance and affordability plays a key role in the ability for people to purchase their dream home. The launch of the new mortgage guarantee scheme will enable more households to access mortgages, without the need for prohibitively large deposits. The scheme is intended as a temporary measure.

ELIGIBILITY FOR NEW MORTGAGES

It opened for new mortgage applications from April 2021 and will run to December 2022, in line with the government's view that the current scarcity of high loan-to-value lending is primarily a response to the pandemic rather than a symptom of a longer-term structural change in the mortgage market. The scheme is UK-wide so will be available for properties in Scotland.

The government will review the continuing need for the scheme towards the planned end date, and determine whether extending the period of eligibility for new mortgages would continue to deliver benefits for prospective homeowners.

STIMULATE THE HOUSING MARKET

The mortgage guarantee scheme is a government initiative to encourage lenders to reintroduce their 95% mortgages and stimulate the housing market. Instead of lenders taking on all of the risk of offering such large mortgages, the government will shoulder some of the risk. Specifically, the government will guarantee the portion of the loan above 80%.

A 95% mortgage is, simply, a loan a homebuyer can take out which covers 95% of the value of their chosen property. The buyer, therefore, only needs a 5% deposit. These mortgages are often favoured by first-time buyers, who might struggle to save a deposit of more than 5%. However, 95% mortgages aren't always easily available, particularly in times when the economic outlook is uncertain.

FAILURE TO MAKE THE REPAYMENTS

Lenders tend to think that 95% mortgages are risky because, if house prices were to fall, the homebuyer could end up owing more than their home is worth. If they fail to make the repayments and their home is repossessed, the lender may not be able to recoup the total loan by selling the property.

So, when the economic outlook is uncertain, many lenders choose to withdraw their 95% mortgages to avoid this risk. We saw this happen last year, due to the COVID-19 pandemic outbreak.

PORTION OF THE MORTGAGE OVER 80% GUARANTEED

Here's a simplified example: if a borrower buys a home for £100,000 with a 95% mortgage, and fails to make any repayments, the home could be repossessed. Without the government guarantee, the lender would need to recover the £95,000 they had provided, which they may not be able to do by selling the property.

Under the terms of the scheme, the government guarantees the portion of the mortgage over 80% (so, with a 95% mortgage, the remaining 15%). With the guarantee, in this example the government would compensate the lender with £15,000, meaning they'd only need to recover £80,000 by selling the property.

WHAT PROPERTY PURCHASES ARE NOT GUARANTEED?

The mortgage guarantee scheme doesn't cover all mortgages. The scheme includes loans on properties up to the value of £600,000 and only includes properties the buyer intends to live in, not buy-to-let properties or second homes.

It also only applies to mortgages that are over 90%, where a five-year fixed rate is offered. The scheme is available to any buyer, not just first-time buyers, though it's likely to be mostly first-time buyers who will benefit.

SPEAK TO A MORTGAGE EXPERT TODAY
Looking to get your foot on the ladder or make another move? Whatever your situation, we'll guide you through your mortgage options.

THINK CAREFULLY BEFORE SECURING OTHER DEBTS AGAINST YOUR HOME.

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

TO FIX, OR NOT TO FIX

Could a fixed rate deal be the right type of mortgage for you?

A mortgage is arguably the biggest financial commitment you'll ever make, so understanding the options available to you is extremely important. One of the biggest decisions you face when choosing a mortgage is whether you should go for a fixed or variable rate.

If you've taken out a fixed rate mortgage, your interest rate is locked in for a fixed period. In other words, the interest rate – and consequently your monthly mortgage repayment – will remain unchanged for an agreed number of years.

SET PERIOD OF TIME

The interest rate stays the same for the set period of time, usually between two years or five years. When the fixed rate term expires, you're automatically switched to a standard variable rate (SVR). This is usually either your lender's SVR or a tracker rate.

As the monthly repayment stays the same throughout the agreed term, it's easier to budget for monthly expenses and stay on top of your finances.

ALLOW SUFFICIENT TIME

Once the fixed rate term expires, you have two choices – either do nothing, or look to remortgage to a new deal. If you do nothing you're put on a SVR, which tends to be higher than the fixed rate. And, because you'll pay more interest, your monthly mortgage repayment might go up.

If your fixed rate period is about to end, you should evaluate your current mortgage and consider switching to a new mortgage deal. It's a good idea to start looking about 14 to 16 weeks before your fixed rate period expires. This will allow sufficient time for you to switch straight to your new mortgage without ever paying the SVR.

FINANCIAL STABILITY

If you're concerned about the stability of your financial situation and would rather know exactly how much your monthly mortgage repayments are each month, a fixed rate mortgage could be the right option for you.

Key points to consider about fixed rate mortgages include:

- You know how much you'll pay each month, helping with monthly budgeting
- Your payments will not go up during the fixed term
- If market rates drop, you wouldn't benefit from lower repayments
- You can choose a short or long fixed term deal while thinking about your next move
- If interest rates go up, you can relax – yours will stay the same
- There's usually a charge for leaving a mortgage during the fixed term

INTERESTING POSSIBILITIES

If you are coming to the end of a fixed rate mortgage and are looking to remortgage, you can – but you need to understand the implications before you make a decision. It's possible to remortgage with your existing mortgage provider or switch to a new one.

Whichever option you choose, it's likely that you'll have to pay fees for exiting your existing mortgage early. When a lender offers you a mortgage, you usually have between three and six months to accept it – after that, you'll have to reapply. That's why you should start your search when your current mortgage deal has at least three months or more to go.

The end of your mortgage deal could open up some interesting possibilities. Doing nothing is an option, but it's always worth researching what else is out there as you might find there's money to be saved.

LOOKING TO FIND A MORTGAGE DEAL THAT SUITS YOUR NEEDS?

Our expert mortgage advisers are on hand to help you find a mortgage deal that suits your needs and we'll guide you through the mortgage process.

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FIRST-TIME BUYER SUCCESS

Five tips for improve your chances of mortgage approval

Many first-time buyers hope to make this year the year they get on the property ladder, thanks to the increasing availability of 95% mortgages. But while there are higher numbers of suitable mortgages available, there's no guarantee you'll be approved.

TO IMPROVE YOUR CHANCES, HERE ARE FIVE OF OUR TOP TIPS.

1. Register to vote

It might not sound like this has much to do with your mortgage, but you'll find it impossible to get approved if you're not on the electoral roll. Though the main purpose of this register is to prevent fraudulent voting, it's also used in credit applications and is one of the first things a mortgage provider will check.

The process of registering is easy (as long as you're a British citizen, an Irish citizen, or a Commonwealth or EU citizen who is living in the UK) and it can be completed online.

2. Check your credit report

Your credit report includes any financial issues on your record in the last six years. If you've received a county court judgement or filed for bankruptcy in that time, more than likely you're aware of the issue and how it could affect your mortgage application. But even smaller incidents, such as late bill payments, can impact your score, and occasionally you'll see something on the report you weren't aware of. Very occasionally you may also find an error, which can be corrected by contacting the creditor.

You can check your credit report for free with Equifax, Experian or TransUnion.

3. Organise your finances

Lenders want to see that your financial affairs are in order, so is now a time you need to tidy them up? If you have bank accounts that you no longer use, close them. If you have small amounts of money in different accounts, consider pooling them together into one to give a clearer picture of your financial position.

If you have a Lifetime Individual Savings Account (LISA), top it up to the maximum £4,000 annual allowance, so that the £1,000 government bonus will be added to boost your savings.

4. Pay off outstanding debts

Mortgage providers will check to see how many credit arrangements you already have before they approve your mortgage, and they want to see that number as low as possible. So, if you have small outstanding debts that you can clear without subtracting from the money you have saved as a deposit, it makes sense to do so.

5. Delay new credit applications

Usually, when you make a new credit application, the lender will perform a hard enquiry on your credit score. If several hard enquiries are made during a short period, that can temporarily affect your credit score. So, until your mortgage application is approved, it's best to delay new credit applications, whether this is a new credit card, a new phone contract, car financing or any type of loan.

TIME TO STEP ONTO THE PROPERTY LADDER?

Finding the right mortgage may seem like a confusing process. Which is the best first-time buyer mortgage to go for? How much can you borrow? What deposit will you need? To discuss your mortgage options, speak to us for more information.

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IS YOUR HOME WORTH MORE THAN YOU THINK?

7 in 10 homeowners do not know the true value of their home

Our home is often our greatest asset, and for many of us it makes sense to capitalise on that investment. But a significant number of homeowners in the UK are wealthier than they realise because they are underestimating the value of their property, a new survey has revealed[1].

The survey asked 2,000 UK homeowners about their experiences of receiving a property valuation from an estate agent in the last three years. Of those surveyed, 3 in 10 reported that the valuation was roughly equal to their expectation of their home's value.

UNDERESTIMATED HOME'S VALUES

A smaller number (25%) of respondents said they had overestimated their home's value. But the largest group (45%) had undervalued their property. People in this group discovered that it was worth more, often far more, than they realised.

Of the 45% of respondents who had underestimated their home's value, the average amount they underestimated by was £46,305. Upon discovering the true value of their property, many of these homeowners were able to move to a larger property than they thought they could afford. In some cases, they were able to retire early.

EVEN SMALL CHANGES CAN ADD VALUE

A significant number of the homeowners surveyed (10%), mostly located in London and the southeast, reported that their estate agent valuation was £100,000 or more higher than they expected. If the survey is an accurate representation of all UK homeowners, that could mean that more than 1 million homes carry over £100,000 in hidden equity, which could be life-changing for the people living in them.

If you've made significant improvements to your home over the years, it's likely that you've added to its value. Extensions, loft conversions and basement conversions tend to add the most value, but new kitchens and bathrooms also contribute. Even small changes, like sprucing up your home's exterior to give it more kerb appeal, can add value.

CREATE AN EXCELLENT FIRST IMPRESSION

The average home prices in your area may also have increased since you bought your home, so looking at similar properties for sale in your area could give you a more accurate idea of your home's value. Getting an estate agent's valuation is a way to find out whether you have hidden equity, and then to make a decision about how to capitalise on it.

Boosting your home's kerb appeal is a really important part of preparing to sell. There are lots of relatively simple ways to ensure your property gives an excellent first impression to potential buyers and to passers-by, while also boosting its value. Even straightforward maintenance and tidying can have a big impact on viewers, as well as saving you money through the prevention of long-term problems.

LET US TAKE CARE OF YOUR MORTGAGE
Ready to make the next move? Let us take care of your mortgage, so all you need to focus on is the move!

Source data:
[1] https://www.zoopla.co.uk/discover/property-news/how-much-is-my-house-worth-hidden-equity/

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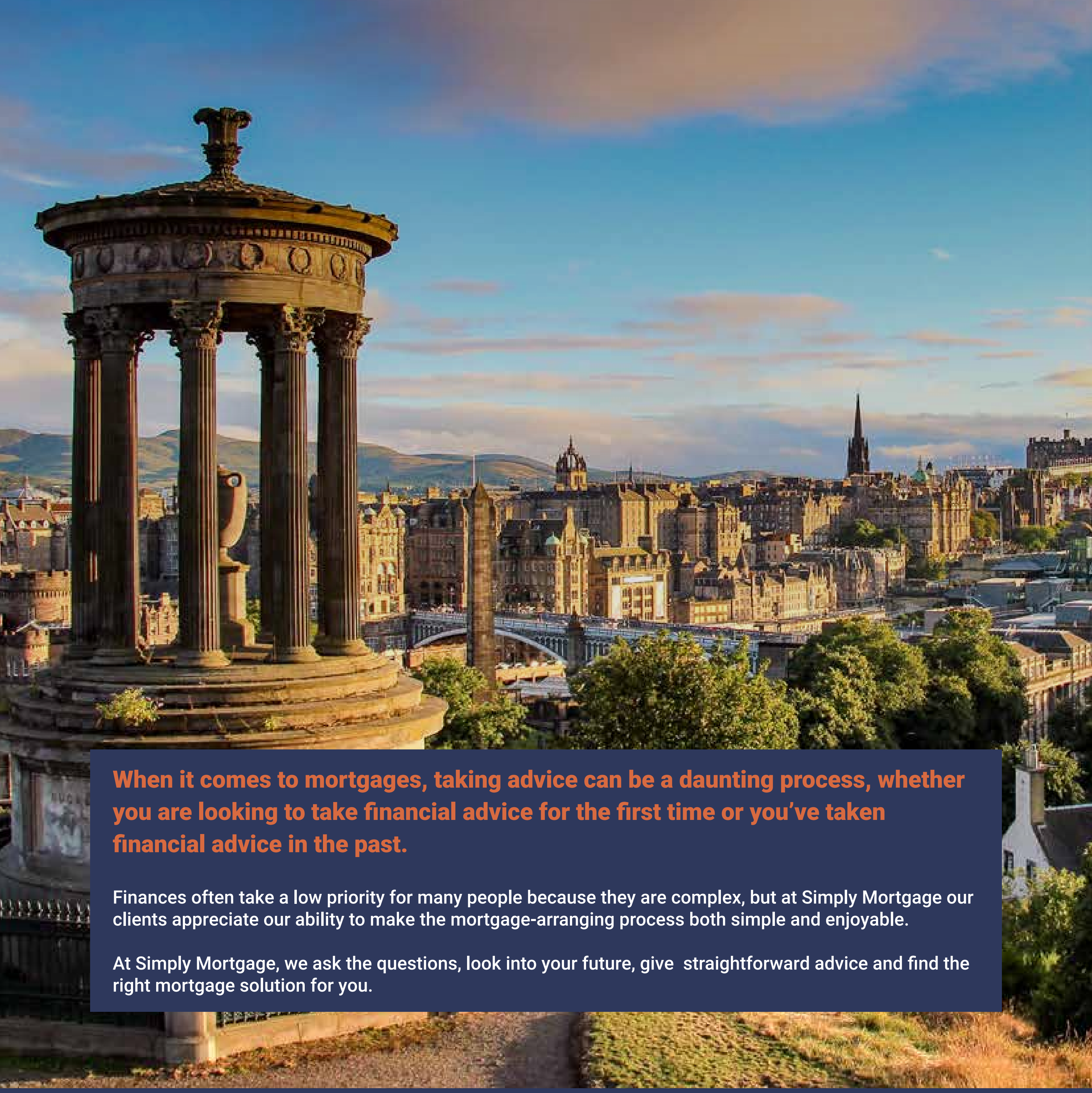

When it comes to mortgages, taking advice can be a daunting process, whether you are looking to take financial advice for the first time or you've taken financial advice in the past.

Finances often take a low priority for many people because they are complex, but at Simply Mortgage our clients appreciate our ability to make the mortgage-arranging process both simple and enjoyable.

At Simply Mortgage, we ask the questions, look into your future, give straightforward advice and find the right mortgage solution for you.

Contact us today to begin your journey – we look forward to hearing from you.

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