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# MMR STRESS TESTING

## WHAT THIS MEANS FOR MORTGAGE PROSPECTS



Lenders want to satisfy themselves that they have a full picture of a borrower's financial position

In April 2014, the Financial Conduct Authority (FCA) introduced a number of changes under its Mortgage Market Review, a set of proposals designed to prevent a return to the high levels of risky mortgage lending last seen before the housing bubble burst in 2008.

### What lenders want to know about you

Basically, lenders want to satisfy themselves that they have a full picture of a borrower's financial position before they can commit to lending the money. Given that buying a house is for most people the biggest financial commitment they make in their lifetime, lenders need to be sure that the mortgage isn't going to put undue financial pressure on the borrower if and when interest rates rise.

#### The key areas of interest are:

- The size of the loan you want to take out
- How much you have available for a deposit
- Your employment status and income from all sources
- Your credit rating
- Your total outgoings
- What existing debt you have

### Choosing the right mortgage

Finding the right mortgage is not just about securing the cheapest deal around. A financial adviser or mortgage broker can help you find the best mortgage to suit your financial circumstances. They have in-depth knowledge of what is available in the market and, because they deal with lenders on a day-to-day basis, know the mortgage criteria that each applies. They can bring this experience to bear when giving you advice and helping you prepare your application.

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

# PEACE OF MIND FOR ALL THAT YOU HOLD DEAR

## Life insurance can do more than just repay your mortgage

**L**ife can be expensive these days. The list of bills families have to pay is a long one and it adds up; there's the mortgage, council tax, food and energy bills for starters. And then there are often credit card bills, personal loans, transport costs, holidays and perhaps school fees too.



So, if your children, partner or other relatives depend on your income to cover the cost of paying these bills, then it makes financial sense to think about the protection and peace of mind that life assurance can provide in the event of your death. Being able to claim on a life insurance policy could mean the difference between your family struggling to make ends meet and being financially secure. Despite this, many of us simply don't have any life insurance cover in place, which is sometimes hard to fathom when you think of how vulnerable we all are to accidents and ill-health.

There are various kinds of policies to choose from, so it's important to discuss the options with your adviser. Term insurance pays out when the policyholder dies within a set period of time. Term policies come in different forms, such as level term insurance, where the amount of cover remains constant throughout the policy. Decreasing term insurance, where the amount paid out reduces over the term, is often taken out alongside a repayment mortgage, with the sum assured reducing along with the outstanding mortgage debt.

Whole-of-life policies provide cover that lasts a lifetime. This type of policy doesn't normally have an end date, so premiums are paid until you die, at which point the policy will pay out (sometimes premiums end at a certain age, say 90, but cover continues until later death). Some families might need the security of a regular income in the event of the death of a breadwinner; a family income policy which provides a monthly tax-free payment until the end of the agreed term is a good way of securing this.

Many people opt to take out critical illness insurance at the same time that they take out life cover. Critical illness cover is designed to pay out a tax-free lump sum in the event that you are diagnosed with a serious illness (as defined in the policy), such as cancer, stroke or heart attack or on incapacity following an accident.

The cost of life assurance is not as expensive as everyone seems to think. Monthly life premiums have come down in cost over the last few years, and you may be surprised to learn that cover can start from around the same amount as you'd pay for a couple of DVDs. Don't wait too long to sign up for life insurance; the longer you leave it, the older you will be, and the more the premiums will cost.

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# CHEAP BUT NOT CHEERFUL?

## Why it's important to look beyond price

**W**hen it comes to buying buildings and contents insurance cover, the range of policies on offer in the market can seem bewildering. That's where the guidance and market knowledge provided by your adviser or broker can help you navigate around the various options. One of the tools that they can use when researching the right policy for you is the Defaqto rating system.

Whilst you may have heard the name Defaqto mentioned in connection with insurance policies, you may not know that this company has created a new way of assessing policies or what their star rating system means for consumers.

Defaqto is a financial research company specialising in rating, comparing and analysing financial products and funds. The aim is to help buyers make better, more informed, decisions. One of the ways this is done is through a star rating system. This provides an independent, unbiased mechanism to help people understand where a product sits in the market, and is based on an analysis of the features and benefits it offers.

### What do the Star Ratings mean?

Each product is awarded a rating of 1 to 5, based on the quality and comprehensiveness of the features it offers. Defaqto Star Ratings range from 1 Star to 5 Star. These Star Ratings indicate the following general qualities:

- 1 Star** - provides a minimum level of features.
- 2 Star** - offers a fundamental level of features, with a few more benefits.
- 3 Star** - provides standard levels of features with a fair range of additional benefits.
- 4 Star** - offers a high level of cover with a good range of features and benefits.
- 5 Star** - provides quality cover and includes a comprehensive range of features and benefits.



The star system looks to reflect the quality of a product, and gives consumers expectations about the cover on offer and the knowledge that a 4 or 5 star product is likely to be amongst the best in its class. Many people would prefer to pay a few extra pounds to get a policy with more comprehensive cover.

Whilst a Defaqto rating is a useful comparison tool, it doesn't represent a recommendation to buy a specific policy. As your adviser or broker knows, the key is to focus on features, not just price, when comparing products to ensure you buy an appropriate product for your particular circumstances.

It's as important, as always, to make sure that the cover and the terms and conditions of any product you plan to buy meet your specific needs; and that's where professional experience and understanding of your particular circumstances come into play.

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# KEEPING YOUR INVESTMENTS ON TRACK

## Heading for the platform – new ways to manage your finances on-line

**Investment management is a task that faces nearly all of us. One of the most difficult (and important) requirements is creating a system to organise and keep track of the relevant paperwork. Because we're all programmed to think we need to save it all, we end up with information piling up in folders, box files and drawers. So when we want to access a particular statement, or details of an investment we made a while back, it's a monumental task to locate the right information.**

If this strikes a chord, you'll be pleased to know that there's an alternative way of managing your investments, called a platform, which cuts down on the paperwork, makes use of leading-edge computer technology and gives you the opportunity to hold all your assets in one place. Basically, platforms are on-line services that act like sophisticated computerised filing cabinets and are used by advisers to view and manage investment portfolios. Platforms are already well-established and it's estimated that around 90% of advisers currently use them in some shape or form.

Platforms help investors and their advisers, to buy investments, hold them in an organised on-line environment, analyse them as they see fit and, when the time comes, sell them. The service can produce consolidated and easy-to-read portfolio reports at regular intervals, plus a detailed annual tax report to aid completion of your return. You and your adviser both have secure online access, 24 hours a day, seven days a week, to the full details of your portfolio and a wide range of printable online reports.

Platforms help by automating many cumbersome and time-consuming tasks, eliminating a lot of the labour involved in administering an investment portfolio. The features they offer can be tailored to your specific needs. All your transactions are held in one place and valuations can be updated quickly and easily. In addition,

you and your adviser can see at a glance your total portfolio and keep track of the performance of your investments; with all investments centralised in this way, regular reviews are quicker and easier to carry out.

So what types of investment can you put onto a platform? Stocks and shares, life policies, unit trusts, open-ended investment companies (OEICs) and exchange traded funds (ETFs) and tax-sheltered investments such as New Individual Savings Accounts (NISAs), their predecessors Individual Savings Accounts, including those that began life as TESSAs and PEPs, pensions including self-invested personal pensions (SIPPs).

Sound portfolio administration is a key component of excellent investment management. After all, we'd all agree that the focus should be on the quality of the investment strategy rather than dealing with the paperwork.



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The value of the investment can go down as well as up and you may not get back as much as you put in.

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