FINANCEMATTERS

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PROPERTY AND MORTGAGE REVIEW

It's fair to say that 2014 will be viewed by many as another good year for the UK property market. In England and Wales, property prices rose by 6.8% in the 12 months to December 2014 (according to The Land Registry). The average house price was £176,581, with, as usual, wide regional variations. London saw average prices rise to £461,453, an increase of 17.4% over the year, whereas the North East region recorded an average house price of £97,783, an increase of just 1.8% over the year.

According to the Office for National Statistics (ONS), Scotland, which has a much bigger mix of housing type and far wider distribution of population density, saw an annual house price increase of 4.4% in 2014.

Probably as a result of the more stringent lending criteria introduced because of the Mortgage Market Review (MMR), launched last year, mortgage availability started to slow. In November, the latest figures available from the Council of Mortgage Lenders (CML), the body representing the majority of mortgage lenders, reported £16.9bn being made available, which itself was a 9% reduction from the previous month. Overall the level of mortgage funds made available through 2014 was flat, compared with 2013.

However, the number of housing transactions here still averaged above 75,000 per quarter. Currently, there are 11.1 million mortgages held in England and Wales worth a total of £1.2 trillion.

Several market followers and housing index analysts feel that the rise in house prices is slowing somewhat, with the ONS, the Halifax, and Nationwide all concurring. At the same time, in January, the CML opined that 2015 lending will grow, however, at a slower pace than that seen in 2014.

Interestingly, first-time buyers (FTB) led the way, as 2014 saw the highest number of them join the housing ladder since 2007, the height of the housing bubble. This group accounted for 46% of all house purchases, totalling 326,500 transactions, an increase of 58,000 transactions from the previous year. Although this encouraging increase did not manage to surpass the 359,900 FTB seen in 2007.

Looking forward, the benign UK inflation outlook bodes well for the property market and also for current mortgage borrowers. The latest figures, released from the ONS in January, put the Consumer Prices Index (CPI) at a joint historical low of 0.5% in December 2014, down from 1% recorded in November 2014. The last time inflation was this muted was back in May 2000. The Governor of the Bank of England, Mark Carney, was quoted in January as saying that interest rates will remain at their present low level for some time to come.

This, of course is good news for borrowers, as mortgage lenders compete for business, their fixed rate mortgage offers will possibly extend in length and reduce in cost. Given this encouraging economic scenario, rates may remain low and mortgage borrowers can therefore rest easy that their repayment schedules shouldn't be derailed in the short-term.

Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up the repayments on your mortgage. A fee may apply for mortgage advice and, if applicable, you must ask your adviser for details before making any decision relating to a new mortgage as the actual amount will depend on your personal circumstances, but the typical amount is 1% of the loan value (on a typical £100,000 mortgage, this would be £1,000).

OVER 50 WITH AN INTEREST-ONLY MORTGAGE? IT'S TIME TO ACT

Currently, more than 6 million over 50's have an interest-only mortgage and many of them are likely to experience problems paying it off. Some are contemplating selling up in order to make up an average shortfall of more than £42,000, according to research carried out by Saga.

In addition, more than 900,000 in their 70s still have an average mortgage bill of £38,000. Carrying debt into your later years is a far from ideal, and can restrict the amount of money available to fund a comfortable retirement.

What can be done?

This research highlights the need for proper financial planning and advice. Clearly, it's important to focus on repaying your mortgage as early as possible. However, if you find yourself with a problem there are various actions you can consider to improve your situation.

Paying off the debt from savings and investments

If you have spare cash, you can make a capital repayment to reduce the amount of mortgage outstanding. With the new freedoms available under the pension legislation from April 2015, you could consider using your 25% tax-free lump sum payment to pay off the debt. However, it's important to consider your needs in retirement too, and maintain the right balance between debt and savings.

Remortgaging

You could switch to a repayment mortgage instead. It would mean an increase in monthly payments, but you would be paying off the capital outstanding. Your adviser will be able to tell you what deals might work for you.

Taking out a lifetime mortgage

Lenders are increasingly aware that some of their borrowers face difficulties and are developing lifetime mortgage products to avoid the risk of borrowers defaulting and the need for homes to be sold to repay the debt. Under this type of mortgage, on death the property would be sold to repay the outstanding loan.

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Selling up and downsizing

Selling your home could release enough to pay off your mortgage. Some people find this an acceptable answer, especially if they can readily find alternative accommodation that they're happy with and able to afford.

Equity release

Moving house can be an expensive and stressful process at any age. There is alternative way of raising cash against the value of your property that means you continue to live in it. Called Equity Release, it allows you to access and benefit from the 'equity' or value tied up in your home.

Equity release is a complicated financial arrangement, and expert guidance is essential in making the right choice to suit your needs and those of your family.

The Financial Conduct Authority has referred to interest-only mortgages as a 'ticking time bomb' so if this issue affects you, the best advice is to speak to your financial adviser as soon as possible.

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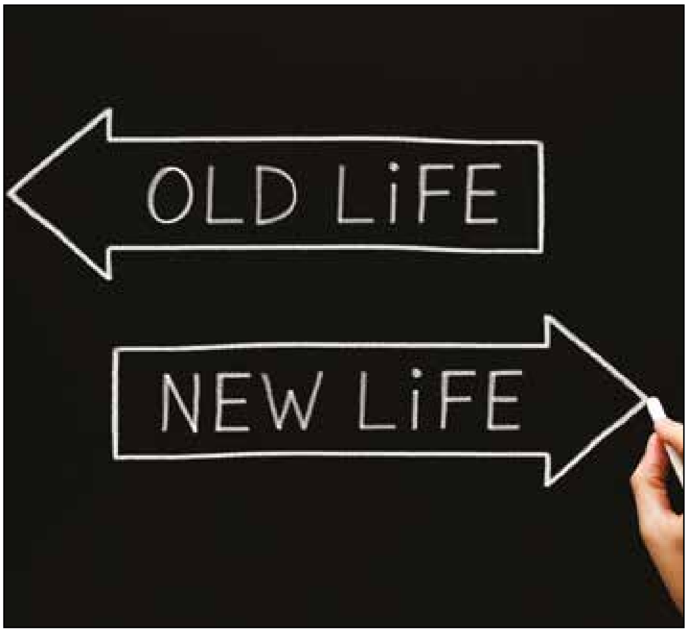
Equity Release is a lifetime mortgage or home reversion scheme. To understand the features and risks, ask for a personalised illustration.

PENSIONS – WELCOME TO THE NEW WORLD!

2014 will go down in the annals of financial history as the year when the pension rule book was effectively torn up. From April 2015, millions of people will have more choice regarding their pension plans following the far-reaching changes in legislation enacted during 2014.



Ros Altman, an economist and former pensions adviser to the Treasury, commented that pension savers 'will at last be trusted with their own money, rather than being forced to choose between expensive and inflexible annuities or income drawdown products that may not suit them. A whole new pension product landscape is opening up.'

The major changes at a glance

- Flexible access to pensions from age 55 (57 from 2028)
- 25% tax-free amount will no longer have to be taken at once on retirement; smaller amounts can be taken over time, each with 25% tax free
- Pension drawdown restrictions relaxed
- Final salary pensions can be switched to defined contributions (but transfers from unfunded public sector schemes not allowed)
- Death benefits paid to beneficiaries on death before age 75 will be completely tax free
- Death benefits after death over 75 subject to 45% income tax in 2015-2016 and beneficiary's marginal rate thereafter
- Income on an ongoing joint-life annuity paid tax free to a spouse or civil partner on death before age 75.

Annuities have received much bad press. Under the new legislation no-one is required buy one at any age. However, the Financial Conduct Authority has confirmed that they may still have a valuable role to play in retirement planning, especially for those who prefer not to take risks and want a degree of financial certainty. So, those looking to provide themselves with a guaranteed regular income, or who fear they may outlive their capital, may choose to take out an annuity to cover their basic living costs. Those in poor health could benefit from enhanced or 'impaired life' annuities which can pay a higher rate of income (up to about 65% more in some circumstances).

"A whole new pension product landscape is opening up"

The view in the marketplace is that the removal of those restrictions that were seen to be onerous or unfair will lead to the development of innovative new products that will be more in tune with the needs of pensioners, many of whom are likely to retire earlier and live longer.

All this new freedom brings with it added personal responsibility. The free pension advice announced by the Chancellor has since been downgraded to 'guidance' which won't cover the choice of product or provider. The need for professional advice tailored to your individual circumstances has never been more important. This applies not only when you access your pension fund, but throughout your working life.

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

BUILDING AND CONTENTS INSURANCE – IS IT TIME FOR A REVIEW?

Home insurance for buildings and contents is a valuable and effective shock-absorber that protects millions of families each year from the unexpected and unwelcome.

Ensuring you have enough insurance is as important as having insurance in the first place. Once you've bought a policy, it's easy to forget about it. However, it's vital to up-date it regularly to ensure that you have the right level of cover. Here are some events that signal that it's time to review your buildings and contents insurance.

Home improvements

It's important to bear in mind that the amount of buildings insurance you need should be the rebuild cost of your home, not the full market value.

So, whilst your sum insured doesn't need to keep pace with property price increases, if you've carried out major home improvements, built an extension, or added outbuildings such as a garden room or store, then your cover may need to be increased to include the extra accommodation.

Home security

Many insurers will ask about security measures before giving you a quote. Homes with a good level of security will generally be offered lower premiums.

If you've updated your home security, you may qualify for a reduction in your premiums. Many insurers offer discounts to policyholders who fit window locks, fire detectors and alarm systems that reach their required standards.

Changes in lifestyle

Marriage, divorce, or adult children moving back into the family home can all have an effect on your home contents insurance. When people move in or out, their belongings tend to go with them. So you may need to increase your sum insured if there's an increase in the value of the belongings in your home.

Some insurers offer better rates to those in retirement, as they know that these homeowners will spend more time in their house and should be able to prevent some claims from happening.

New possessions

If you've acquired new possessions, it's important to make sure they're properly insured. Some home contents insurance policies cover high-value items as standard and will insure any single item up to a specified figure – this can be typically £1,000.

If you don't declare a valuable worth more than the limit, it wouldn't be covered at all. It's important to check your policy schedule to see what's included and what the limit is. If you have items that exceed the stipulated amount, then you need additional cover; your adviser or broker will be able to assist you with this.

If you've bought a new laptop, phone, iPod or iPad, then you should check that the amount of cover provided by your policy is sufficient and that you have cover for valuables used away from home.

Covering more of life's risks

When you took your policy out, you may have decided against adding optional cover, perhaps on grounds of cost. However, your circumstances may have changed and you may now feel that you'd like additional peace of mind. Many people are happy to pay a few extra pounds to get a policy with more comprehensive cover. You can, for instance, add cover for legal expenses, home emergencies, drains and plumbing, freezer breakdown, accidental damage to home contents and accidental damage for personal possessions outside the home.

Price isn't everything

When it comes to buying buildings and contents insurance cover, the range of policies on offer in the market can seem bewildering. As your adviser or broker will tell you, the key is to focus on features, not just price, when comparing products to ensure you buy an appropriate product for your particular circumstances.