

News & Views



Issue 1 - March 2009

A vanishing market

It wasn't so very long ago that credit was cheap and easily available, and mortgage lenders were fighting to win business. However, since the credit crunch took hold late in 2007, it has become increasingly difficult and more expensive to borrow.

According to the Bank of England, mortgage approvals for house purchasers were just 31,000 in December 2008 (below the 32,000 6 month average) with the credit conditions and falling house prices continuing to deter first-time buyers. Even remortgages, which had held up as existing borrowers sought new deals, were down in December, perhaps partly because of seasonal effects but also because the latest Bank of England moves made it less important to move away from standard variable rates (see below).

The increased risk of default from borrowers in a depressed economy, coupled with a lack of availability in credit markets, has spurred mortgage lenders to tighten their criteria. In an attempt to help out, the Bank of England has now slashed interest rates to just 0.5%, the lowest level ever, which has also brought down standard variable rates for existing borrowers. Despite this, however, mortgages are still hard to find - and tracker mortgages in particular have all but disappeared. The Government are finding it difficult to make the banks lend, even with their financial support. However, this is an opportunity for banks to clean up their lending books and they may at least eventually emerge in better shape.



Get on the ladder

Despite house prices falling recently, they are still very high in terms of affordability. So, does it make sense to sit on the fence in the hope that they will fall further or do you get on in to somewhere you can afford now? For those who have held off buying in the hope of a tumble, it has proved a long wait. Coupled with this, the credit crunch means getting a mortgage for those needing higher income multiples or high loans-to-value is harder than it was. However, what these limitations do ensure is that those who would overstretch are prevented from doing so - which will perhaps help to make prices more affordable for everyone as the market settles down.



Welcome to the latest edition of News & Views, our update on developments in the world of financial services.

We hope you find the contents of interest. If you have any questions, or would like to discuss any of the points raised, please give us a call.

Contact Us:

D.M.P.S. Financial Services
9 English Street
Dumfries
Dumfriesshire
DG1 2BU

(01387) 249304

Still a good buy?

If you are considering buying a second property to let out, the uncertain outlook for the property market means caution is necessary. Some parts of the UK are experiencing over-supply in the rental market and landlords with mortgages could struggle to pay these if their property remains un-let or if the rental income achieved is less than expected. Most experts see the property market as having further growth potential, but believe returns will be lower in the future. With migration into the UK expanding and pressures on new build homes growing, there are persuasive reasons why property will remain a good long-term investment, but prices appear high in the short-term.

Repaying the mortgage

The payments on an interest-only mortgage are lower than on a repayment mortgage because they only cover the interest due. At the end of the mortgage term, you will still owe the full original amount you borrowed. However, they are still popular, particularly for buy-to-let and also for those who believe their earnings will increase. They can also work well if inflation is high, as this erodes the real value of the capital sum over time. However, unless you want to lose your house at the end of the term, ultimately, you do have to find a way to pay the money back.

There are a number of options for repaying your loan, the first, and most obvious of which might appear to be simply sell the house and use the proceeds. This might be OK for buy-to-let or holiday properties, but can be difficult for your own home as you need to live somewhere. More importantly, however, there is a serious risk that the price you get back will be lower than the price you paid, leaving you with a shortfall. House prices, like those of any investment, can go down as well as up so you may not get back the amount you need. It may also take time to find a buyer and, even once found, the sale can take several weeks to complete.

So the recommendation is to raise a lump sum. You may be helped in this regard by an inheritance, for example - but you need to be sure that this money will come through in time. Most people instead opt for a savings plan and thereby build one up over the period of the mortgage. Traditionally, endowment policies were the most common option as investors could take out a policy with a term and value tied directly to their mortgage. These also came with built-in life insurance to the value of the loan and were portable without penalty when buyers moved on. However, when markets turned against them, they proved expensive and lacked transparency, resulting in shortfalls which investors were not prepared for.

ISAs and unit trust investment products have therefore taken over. Both offer value for money, flexibility and wide investment choice whilst ISAs also offer tax efficiency, albeit subject to a maximum annual investment limit (£7,200 in 2008/09). An average 25 year term means you have plenty of time to make the most of the market and shrewd investments may even leave you with more than you need.

However, as with any market investment, there are no guarantees. There is also the possibility that markets will fall and you may be left with less than you need. If you can't take the risk, perhaps the security of a repayment mortgage will serve your needs much better.

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



For mortgages we can be paid by commission or a fee of usually £400

Issued by D.M.P.S. Financial Services which is a trading name of Dumfries Mortgage and Property Shop. For financial services Dumfries Mortgage and Property Shop is an appointed representative of Sesame Ltd, which is authorised and regulated by the Financial Services Authority. The contents of this newsletter do not constitute advice and should not be taken as a recommendation to purchase or invest in any of the products mentioned. Before taking any decisions, we suggest you seek advice from a professional financial adviser. All figures and data contained within this document were correct at time of writing.