KINNISON
PROPERTY FINANCE EXPERTS

Mortgages unwrapped
2nd Steppers, Self-employed/partners and later life

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Agenda

1. Impact of COVID-19
2. How much can I borrow?
3. Employed v Partner
4. Self employed
5. 2nd Steppers
6. How to source the right mortgage
7. Mortgage options for the over 55s
8. How Kinnison can support you

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The Impact of COVID-19

Government/Regulator Reactions

- Cut in BoE interest rates to historic low of 0.1%
- Introduction of ‘mortgage payment holidays’

Bank/Lender Reactions

- Information on websites on the process for claiming ‘payment holidays’
- Creation of dedicated helplines for existing borrowers who wish to discuss their personal positions
- Initially lenders withdrew certain products (in particular the higher loan to value products)
- Since the easing of lockdown and the return of physical valuations the appetite to lend has returned and increase competition has led to:
    - Lower interest rate mortgage products
    - Re-emergence of 90% loan to value mortgages

Mortgage payment holidays

- Introduced in March 2020 for an initial period of 3 months
- In June 2020 this period was extended by a further 3 months
- You have until end October 2020 to apply
- You **must** contact your lender **directly** if you think you may potentially experience payment difficulties with your home mortgage as a result of COVID-19

Pros

- **Temporary** release of pressure on a your monthly finances/cashflow
- Release some of the personal stress that you may be feeling during this unprecedented time

Mortgage payment holidays

Cons

There are a number of important points to bear in mind:

- You will continue to incur interest on your mortgage balance
- You will still owe the amounts that have accrued during your payment holiday
- Future monthly mortgage payments may be higher as the lender may look to spread the deferred payments over the remaining mortgage term
- In order to reduce the impact on future payments the lender may offer to increase the length of your mortgage term

What impact could a payment holiday have on your future ability to get a mortgage?

- ➢ The FCA have issued guidance requesting that lenders should ensure that taking a mortgage payment holiday **does not** affect your credit score
- ➢ For future mortgages a new lender may seek confirmation of whether you took a payment holiday and the circumstances
- ➢ A future lender may request additional information to seek comfort that you are able to afford your new mortgage

How much can I borrow?

Mortgage lenders in the UK are regulated by the Financial Conduct Authority (FCA) which provides affordability guidance to lenders who:

- Assess your level of annual earned income and ensure this is evidenced
- Assess your ability to ‘afford’ a mortgage based on annual income and expenses
- Set internal guidelines:
  - for individuals in certain professions
  - treatment of irregular earned income
  - treatment for ‘self employed’ income
  - age restrictions

Other Loans

Car loans, out-standing credit card balances/overdrafts

- Needs to be disclosed as part of your application process
- Outstanding balances will be taken into consideration when assessing your affordability

How much can I borrow?

Income	£30,000	£60,000	£80,000
LTV	Single individual	Single professional	Couple with one professional
Up to 80%	£150,000 (upto 5 X income)	£360,000 (upto 6 X income)	£480,000 (upto 6 X joint income)
Between 80% and 95%	£134,700 (upto 4.49 X income)	£330,000 (upto 5.5 X income)	Upto 5.5 X professional income + 5 times non professional income

The above tables are for illustrative purposes only

As well as income, lenders will also take into consideration living costs:

- Committed expenditure – eg school/childcare fees
- Essential livings costs – eg utility bills, council tax
- Quality of living costs – eg holidays, gym membership

Such costs can have a significant impact on the amount lenders finally agree to lend

During the current COVID-19 climate lenders are constantly changing their criteria hence the income multiples illustrated are subject to constant review and amendment

Employed v Partner

- Transitioning from employed to partner status may affect your ability to secure a mortgage or re-mortgage
- For the purposes of a mortgage, lenders are likely to regard partners as 'self employed'
- Issues to consider prior to becoming a partner:
  - Do you have a mortgage where the term is nearing maturity?
  - Should you refinance an existing mortgage prior to accepting partnership?
  - Are you looking to move home within the foreseeable future?
  - Does your existing mortgage have significant early repayment charges?

Partners

- Salaried partner – income multiples should apply
- Salaried partner with profit distributions/bonuses:
  - Some lenders may not take into consideration irregular income
  - Other lenders may apply a 'hair-cut' to the irregular portion of income
- Financial evidence of the ability to earn future irregular income will be critical

Self employed

Impact of COVID-19

- You may have been forced to cease business
- Your business may have been adversely impacted
- Did you apply and receive?:
  - Bounce back loan (“BBL”);
  - Self employed income support scheme.

Lender reactions

- Most lenders will require self employed borrowers to go through a ‘manual’ approval/underwriting process
- Detailed information about your business will be required including:
  - Past and current financials
  - Financial forecasts
  - Industry sector
  - Business plan
- Lenders will assess your business’s ability to:
  - Withstand future financial difficulties
  - Repayment of BBL

Second steppers

- Maths is key
  - Assess your affordability and size of mortgage which you may be able secure
  - Review your finances and non essential regular expenses
  - Calculate the Stamp Duty Land Tax liability of your potential new purchase
  - Establish the level of deposit including savings and equity from sale of current home or other sources

- If you have taken a mortgage payment holiday be prepared to answer additional questions
  - Circumstances which led to request for a payment holiday
  - Your ability to withstand future financial difficulties
  - Information about the industry sector you work in

How to source the right mortgage

Mortgage lender landscape:

- High street banks
- Online only banks
- Building societies
- Regional building societies
- Challenger banks
- Private banks (with or without assets under management)

How to source the right mortgage

A number of options are available to you:

- Direct approach to lenders
- Comparison websites/online mortgage brokers
  - Money facts
  - Money saving expert
  - Money supermarket
  - Which?
  - Habito
- Mortgage brokers
  - Tied agents – brokers who represent a specific panel of lenders
  - Whole of market – brokers who are not restricted to a specific panel

Common errors made during mortgage application process

- Selecting the wrong lender/product:

- Thorough review of you credit history/report:
  - Check a couple of credit reports
  - Deal with any outstanding issues

- Over estimating personal income

- Underestimating/omitting personal expenses and other loan commitments

- Bank statement entries

- Inconsistencies in documentary evidence

Mortgage options for over 55s

Background

- Recognition by banks of the need to offer products to a population living longer
- Borrowers working beyond retirement age
- Growing demand for cashflow during later life

Options

- Normal regulated mortgage
- Retirement Interest Only mortgages “RIOs”
- Lifetime/equity release mortgages

Over 55s – Normal regulated mortgages

- You will need to meet the income/affordability requirements of a regulated mortgage
- You may have multiple sources of income:
  - Employment
  - Part time consultancy fees
  - Directorships
  - Pension income
  - Investment income
- For interest only mortgages you will need to have a mortgage repayment strategy
- Mortgage will have a defined term

Over 55s – Retirement Interest Only ("RIO") mortgage

What is a RIO mortgage?

- A mortgage where your monthly payments are lower as you are only paying the interest
- Typically the mortgage is only paid off when you sell your home, move into long term care or die

Pros

- Regular income/affordability requirements are lower as mortgage is interest only
- No need to demonstrate a repayment strategy for mortgage balance
- Loan term is not fixed
- Interest cost can be lower than a Lifetime Mortgage

Con

- You will need to meet the mortgage affordability requirements and prove you can afford the monthly interest payments on an ongoing basis
- The amount you can borrow is dependent on your level of income during retirement and loan to value restrictions
- Your home may be sold if you enter into long term care or when you die to repay the mortgage

Over 55s and retired members – Lifetime mortgage

What is a Lifetime mortgage?

- A mortgage which does not have to be repaid until you move into long term care or die
- Typically the mortgage is paid off when the property is sold
- 2 different categories of mortgages are available:
  - Interest roll-up
  - Interest paying

Pros

- Rate of interest on your mortgage is fixed for life
- You do not need to have a regular income
- No need to demonstrate a repayment strategy for repayment of mortgage balance
- Loan term is not fixed
- The option of interest roll-up means you do not have to worry about monthly payments

Con

- Early repayment charges can be high
- The amount you can borrow is generally dependent on your age and quality of your health
- Interest cost of the mortgage tends to be higher than a normal mortgage or RIO
- Your home may be sold if you enter into long term care or die to repay the mortgage

Why are more considering 'later life borrowing'?

Background

- Pension income/funds may have eroded due to recent COVID-19 impact on financial markets
- Desire to remain in your home longer rather than move into long term care home/downsize
- Help children and grandchildren take their first step onto the property ladder
- Significant equity in your home represents a large portion of your net wealth

Market Developments

- Historic low interest rates has significantly reduced the interest cost
- Lenders have introduced more flexibility by providing you with the ability to:
  - Switch from interest roll-up to interest paying and vice versa
  - Drawdown funds in stages to reduce interest costs
  - Make stipulated repayments without penalties

Getting good advice from a qualified life time mortgage adviser is critical

How Kinnison can support you

- Lenders are:
  - Constantly changing their products and lending criteria
  - Resource constrained and hence working more closely with external mortgage advisers who can prepare all the information required for the mortgage approval process

- Fully understanding your medium and long term personal circumstances
  - To ensure that you have taken into account all related costs
  - To check your finances to ensure that you can afford the mortgage

- Help you prepare to apply for a mortgage:
  - Guidance on checking your credit score
  - Collate relevant 'know your client' documentation – utility bills, valid passport, driving license
  - Collate supporting documentation:
    - Up to 6 months payslips; P60s and/or prior year HMRC tax returns
    - Up to 6 months banks and credit card statements

- Research the whole of the market to source an appropriate lender and product taking into account lender restrictions:
  - Number and age of mortgage applicants
  - Type of property eg ex local authority, new build etc
  - Options for early repayments

- Assist with completing the paperwork for you ensuring the questions are answered appropriately

How Kinnison can support you

After the application has been submitted:

- Answer any questions that the lender may have after your application

- Understand your mortgage offer/conditions:
  - Interest rate, mortgage term, monthly repayment terms and amounts
  - Conditions for overpayment, fees, early repayment charges
  - Payment holidays
  - Total cost of borrowing

- Assist you through the completion of your mortgage/purchase/refinance
  - Liase with lender
  - Interact with valuers/solicitors

How Kinnison can support you

Looking ahead

- Consider whether you need an insurance policy to cover periods of unemployment due to illness or redundancy:
    - Critical illness cover
    - Income protection policies
    - Life insurance
- Update your will

The Mortgage re-finance process

- Ideally start working on this 3 to 6 months before your mortgage deal comes to an end
- Review your financial position ie level of income, other debt
- Review your personal position ie employed v self employed, career break

How Kinnison can support you

Through our partnership with the ICAEW we have a dedicated mortgage advisory service for ICAEW members through Kinnison Mortgage Services ("KMS") offering at a significantly discounted fee structure:

Fee structure	Service
Retail banks and building societies (mortgages <£750k) ➢ Fee of £199 on application and £299 on completion ➢ No further fee payable ➢ Kinnison will receive a fee from the lender	➢ Whole of market access ➢ Real time access to products and rates ➢ Deep understanding of lenders affordability and repayment criteria ➢ Time efficient

Fee structure	Service
Private banks and specialist lenders (mortgages > £750k) ➢ Kinnison standard fee of 1.1% reduced to 0.6% of the finance arranged ➢ Kinnison may receive a fee from the lender, which, if received will be rebated against the 0.6% client fee	➢ Access to an opaque mortgage market ➢ Bespoke and negotiated terms, conditions and pricing ➢ Preparation of full credit paper ➢ Understanding of the credit officer approach

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