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Can you afford to bankroll your kids?

While the Bank of Mum and Dad is now firmly established as one of the country's leading mortgage lenders, there are growing concerns this generosity is putting parents' future finances in peril.

Making home ownership a reality

Parents are increasingly finding themselves in a financial conundrum: if they don't provide money for a deposit it may prove impossible for their children to buy a home but doing so can place their own retirement plans in jeopardy. And evidence suggests that, for many, there is a tendency for hearts to rule heads, with research[1] showing more than half of over-55s help family simply because it's 'a nice thing to do'.

But at what cost?

The research also highlights how funding children's property ambitions can have significant financial consequences for parents. For instance, over a quarter who provided support are not confident they will have enough to live on in retirement, while more than one in seven have had to accept a lower standard of living.

Seek advice

All parents will clearly want to help their children financially; but it's vitally important that doing so doesn't put their own financial security at risk. So, if you are thinking about helping your children onto the housing ladder, make sure you seek sound financial advice first. Get in touch.

[1]Legal and General, Aug 2019

Getting your finances mortgage-ready

Buying a home is like many things in life; it requires significant preparation and planning. If you're looking to buy a property soon, it's probably time to initiate some tactical financial changes to boost your chances of securing a loan and ultimately help realise your home-owning dreams.

Save, save, save

A great way to improve the chances of being offered a mortgage on favourable terms is to save as much as you can towards a deposit. Opening a dedicated savings account and squirrelling away spare cash is therefore a good idea. And, for first time buyers, there are even specially designed ISAs which provide, within limits, a 25% bonus on top of what you manage to save.

Check your credit score

No-one will secure a home loan if their credit rating is dire and, the better it is, the better the mortgage terms you can hope to be offered. It's therefore imperative to check your credit score. If it does need improving, then paying utility bills on time, paying off credit card balances in full each month and ensuring you're on the electoral register are all ways to boost your rating.

Sort out your finances

Prospective lenders will assess the state of your finances, including any debts, and the way you manage your financial affairs. It's essential to keep your current account in credit and try to keep incomings and outgoings as 'regular' as possible. You should also try to curb frivolous spending and, if you can afford to, pay down any loans and credit card balances too.

Ask an expert

Taking on a mortgage is a big financial commitment and it's essential to seek advice in order to ensure you find a loan that fits your individual circumstances. Don't worry; we'll be here to help you navigate the mortgage maze.

Uncovering the myth – common-law marriage

The number of cohabiting couples in the UK is on the rise, with an estimated 3.3 million couples living together who are not married or in a civil partnership. It's a common misconception that if you live with your partner for a couple of years, you are afforded the same legal and financial rights as couples living together who are married or in a civil partnership.

Confusion surrounding the concept of common-law marriage still exists. However, in reality, couples living together have hardly any rights automatically. In fact, your financial affairs need more careful planning to make sure your family is protected.

Where there's a Will there's a way

Making a Will is vital for unmarried couples because cohabiting partners have no automatic right to inherit if their partner dies. Making a valid Will helps to ensure that assets go to those you wish to receive them. Under the laws of intestacy (not identical across the UK), the unmarried partner is only entitled to jointly owned assets if their partner dies. If you have children together, the estate of the deceased partner will pass to them when they are 18. If there are more than two children, they will each inherit the same amount. This rule applies regardless of whether they are children of the existing marriage/civil partnership. If there are no children, the estate will go to the deceased partner's closest relatives, not to the surviving partner.

Insure to ensure

Taking steps to protect your finances should also be a priority for cohabiting couples. A life insurance policy provides a valuable safety net and would help your loved ones maintain their lifestyle if you were to die. Take the time to calculate how much money your family would need if they lost your financial support, including paying off the mortgage, covering regular household bills and clearing debts.

So, if you are cohabiting, no matter how long you live together, moving in doesn't give you automatic rights to each other's property, or entitle you to inherit, leading to potentially catastrophic consequences for a surviving partner.

If you value it – protect it

Choosing the right type of protection and level of cover for you and your family, is crucial. You may be confident with the terminology and know the differences between life insurance, critical illness cover, income protection and home insurance, but it's sometimes tricky to tell, especially when they're all wrapped up in the blanket term 'protection'.

Don't let the jargon put you off

Regard protection insurance as something that safeguards everything that is important in your world: your health, your life, your home and your job. If you have a partner or dependants, these are obviously a top priority too. Having the confidence to know that everything you hold dear is protected is a good place to be.

We've got your back

We can help you understand the value of each type of insurance protection and find affordable cover, so you can rest assured you are selecting suitable policies to secure your financial future.

In pursuit of your forever home? You're not alone

Recent research has revealed that over half of people (53%)[2] in the UK are unhappy with where they live at present and are intending to make the move to find their 'forever home'.

Size really does matter

You may expect location to be top of the agenda for those planning a move, but the research revealed that size is now of much higher importance for prospective movers, with 57% citing it as a critical factor when selecting their forever home.

Second on the list of top requirements is the number of bedrooms (53%), with location in the third spot (52%). Other prime factors for people on the move are purchase price (50%), proximity to green spaces (46%) and good transportation links (31%).

[2]Nested, 2019

Mortgage approvals – a midsummer dream

In July, the number of home loans approved by the main high street banks hit its highest level for ten years, totalling 95,126 approvals. This is the highest monthly total since July 2009, when just under 100,000 applications were given the thumbs up[3]. The biggest drivers of growth were remortgage approvals and new home purchases.

This peak in activity can be attributed to a range of factors, including the number of competitive rates available on the market and the fact that July was the month when the odds of a no-deal Brexit reduced, incentivising home-seekers and remortgagers into action.

Although August approval figures moderated to 85,931, approvals for both home purchase and remortgage loans were higher than August 2018 statistics.

[3]UK Finance, Aug and Sep 2019

Mind the gender protection gap

Figures released by technology firm, Iress, reveal a significant difference in protection sums assured between men and women, raising concerns that women run more of a risk of being underinsured than their male counterparts.

The analysis[4], collated over the last three years, found no substantial gender difference in those arranging protection cover, with women accounting for 46% of protection sales and men accounting for 54%. However, it did reveal large variations in the respective sums assured arranged for men and women. For example, male sums assured for critical illness cover were 90% higher than female sums assured, at £10,985 and £5,790 respectively. For combined life and critical illness cover, the difference was 50% and for life cover only it was 53%.

Huge shortfall needs to be addressed

The gender pay gap and other societal factors can, to some degree, explain these differences in protection sums assured but the extent of the gender gap has been a surprise. As well as a concern that women may be underinsured, there is a general issue of potential underinsurance for both sexes. With the average UK house price standing at £232,710, according to most recent government data[5], it may be expected that levels of life cover would be close to this figure. Instead, the average sum assured being arranged in 2019 for men is £129,033.53 and £103,758.69 for women.

For help in reviewing your protection needs, please get in touch.

[4]Iress, July 2019
[5]HM Land Registry September 2019

Reliance on the Bank of Mum and Dad intensifies

The Bank of Mum and Dad (BoMaD) is now the 11th largest mortgage lender in the UK, looking set to lend 6.3bn this year, up from £5.7bn in 2018. It is also playing a more complex role in the UK housing market than previously thought, helping more than just young first-time buyers.

The average contribution from BoMaD this year is £24,100[6], an increase from last year's figure of £18,000. This increase of £6,000 is double the average UK house price increase of £3,000 in the year to March and suggests a desire by homebuyers to purchase larger properties. Research shows that the most commonly purchased properties are now three-bedroom houses or flats (44%) and well over a third of those lending (38%) have helped family or friends to buy a two-bedroom property. About 15% were even helping loved ones to purchase properties with four or more bedrooms.

Helping young and old

The complexity of the role played by BoMaD is apparent from the research, dispelling the notion that only young first-time buyers are being helped in this way. More than a fifth (22%) of people aged 45-54 have received financial assistance from BoMaD to purchase their latest property and around 7% of over-55s have also received help from family or friends to buy their most recent home.

Generosity set to continue

This type of funding looks set to continue with more than a third (35%) of prospective buyers who are planning to purchase a home in the next five years expecting to rely on financial support from their family.

[6]Legal and General, June 2019

Stay safe during Brexit

It's worth reminding yourself of the Financial Conduct Authority's (FCA) advice regarding staying safe from scams taking advantage of Brexit.

On leaving the EU, because most UK financial services regulation is drawn from EU directives, the government requires financial services companies to proactively contact anyone likely to be affected. For example, transfers of money to Europe or paying for a purchase in euros could take longer. Any disruption during this time could present a perfect opportunity for scammers, who may contact people pretending to be from their bank, insurer or other financial services provider.

Top tips

- *Beware of all unexpected calls, emails and text messages*
- *A genuine bank or organisation will not ask for your PIN, full password or to move money to another account*
- *Never give out your personal or financial details unless it's for a service you want to use and where you trust the provider*
- *Don't be pressured into acting quickly – a genuine bank or financial services firm won't mind giving you time to think*
- *Always double-check the web link and company contact details in case it's a 'clone firm' pretending to be a real firm*
- *If you get an email, expand the pane at the top of the message and see exactly who it has come from – if it's a scam, the email address of the sender may be filled with random numbers or be misspelled*
- *Beware that fraudsters can 'clone' real email addresses to make their emails seem genuine*

If you have any doubts about what you are being asked to do, don't respond to the message or click on any links. Check with your provider using contact details you can trust, for example the phone number on your bank statement or policy documentation. You can also ask your adviser to verify that the message you received is genuine.

ScamSmart

Don't forget, the FCA's ScamSmart website is a reassuring way of checking an investment or pension opportunity you've been offered and avoiding scams. For more information read the FCA pension scams leaflet, or find out more at www.fca.org.uk/scamsmart.

Tax changes could cost 'accidental' landlords

The government announced plans earlier this year to curb Private Residence Relief from Capital Gains Tax for landlords who once lived in their rental property. This means that over half a million 'accidental' landlords have until April 2020 to sell up, before they could be hit with new tax bills for thousands of pounds.

An 'accidental' landlord is someone who didn't buy a property with the intention of letting it out, but has since ended up doing so, maybe because they inherited the property, haven't been able to sell, have relocated or moved in with a partner.

If you rent out a property that was once your main home, tax is calculated on the gain in value since you left. Currently, for tax purposes, landlords can also extend the time they lived at the property by 18 months. From April next year, this extension will be reduced to nine months.

At the same time, the government is also scaling back Letting Relief. Currently, when a landlord sells their former home after renting it out, they can shelter £40,000 (up to £80,000 for couples) of their gain from Capital Gains Tax. From next April, only landlords who live in the property with their tenants will qualify for this relief.

By introducing these measures, it is estimated that the Treasury will raise £470million over five years[7].

[7]RSM, Apr 2019

Move or improve?

In contrast to the booming housing market of the 1980s when people moved home on average every eight years, the time a homeowner in the UK now stays in their property averages 21 years[8].

Typically, people will stay in properties for shorter periods during the early years of home ownership, before settling into a family home for longer. The effects of high property prices, Stamp Duty and other costs of moving, are all factors encouraging people to improve their current property and stay put.

Regional variations are evident, with some of the most expensive areas of London (Kensington and Chelsea) having an average 35 years between moves, in contrast to only 15 years in parts of Kent (Dartford), Salford, South Derbyshire and East Lothian.

[8]Zoopla, July 2019

Protection for property portfolios overlooked

Many owners of buy-to-let properties may have overlooked the importance of protecting their property portfolio on death.

Despite what you may think, buy-to-let properties won't automatically be inherited by your family on death. The lender is usually well within their rights to ask for the mortgage to be repaid in full, whether the loan was arranged in sole or joint names. Without access to sufficient funds to repay any mortgage, the property may have to be sold, with a resulting loss of rental income.

With Inheritance Tax (IHT) payable on estates over £325,000 (£650,000 for a couple) and normally payable at 40%, it's easy to see how buy-to-let landlords could leave a substantial Inheritance Tax bill for their family to pay. HMRC require this bill to be settled within six months and have the power to force the sale of properties to settle this.

Taking out life insurance to protect your property portfolio is essential and we can advise you on the best type of policy for your individual circumstances, as well as how to put the policy in trust, so that it remains outside your estate for IHT purposes.

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK.