

Speak...

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Mortgage

Winter 2009

Welcome to 2009

As we reach the end of a bad year for the housing and mortgage market, what does 2009 hold in store?



The Council of Mortgage Lenders expects mortgage lending in 2009 to reduce from £258bn to £145bn. In 2007 mortgage lending stood at £363bn. CML also predicts net lending to be negative as homeowners scurry to repay mortgage debt rather than trying to increase mortgage debt, alongside the banks' need to balance the interest of savers and borrowers.

Arguably, the slowdown in the mortgage and property markets has created opportunities for some. If you are looking to move to a more expensive property, now may be the time to begin thinking about it. By the end of December 2008 the price of the average house had fallen

to £153,048, around £28,000 lower than December 2007. (Source: Nationwide Building Society) This means the cost of trading up to a more expensive property is significantly lower than before. Although nobody can predict with any confidence when property prices will have bottomed, with interest rates at unusually low levels, it may be time to start looking for that new home, especially if you think of it as just that: a home rather than an investment.

Now is also a good time to review your protection needs. Why not use some of the savings you are making in mortgage repayments to bring your protection levels up to par?

Think carefully before securing other debts against your home.
Your home may be repossessed if you do not keep up repayments on your mortgage.



Protecting your greatest asset – your income

Do you sometimes find it a struggle to live within your income? Have you ever asked yourself how you would manage if your income stopped?

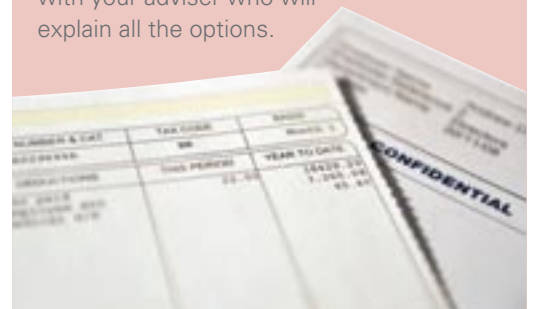
Income protection, sometimes called permanent health insurance, provides a tax-free income if you are unable to work through long-term sickness, or disability, caused by illness or an accident. The income begins after you are off work for a specified time – the deferment period. You choose the deferment period, which will range from 4 to 52 weeks. When choosing your deferment period you will consider the duration of any sick pay your employer provides. Your adviser will help you do this.

Of course, if you are self-employed, you have no sick pay unless you provide it yourself. This makes income protection all the more important.

The cost of income protection cover depends on several factors. These include your chosen income level and deferment period, your occupation, your age and your state of health.

People often confuse income protection with mortgage payment protection insurance (MPPI); in fact, they are quite different. Mortgage related payment protection insurance covers only your mortgage payments if you are unable to work because of an accident, sickness or unemployment; income protection covers your income against sickness and disability, but does not cover unemployment.

If you think you might struggle if your income stopped suddenly, talk it through with your adviser who will explain all the options.



One in two women without protection

An increasing number of women are the main breadwinners in their homes. According to research from AXA, by 2018 the number of women of working age in Britain could overtake the number of men who are of working age.

And with this comes increased responsibility for women, including an increased amount of financial responsibility.

However, according to the same AXA research, almost 50% of all working women in the UK do not invest in any kind of financial protection to cover their mortgage. Neither do they have protection such as life insurance, critical illness insurance or income protection. (Source: moneymaking.co.uk)

So, what would happen if they died or became unable to work because of injury or illness? Worryingly, more than 25% of British women say they would rely on their partner's insurance policy if anything should happen.

This almost certainly will not be good enough as, even if their partner has income protection, it usually protects only the policyholder. So, if the worst happens, they and their families could struggle to pay the bills and make mortgage repayments. (Source: fairinvestment.co.uk)

It seems that although women's attitudes to working full or part-time, or setting up and successfully running their own businesses, have drastically changed, their attitude towards protection cover hasn't. Further figures from the AXA survey show that 39% of women without insurance didn't think they needed it. Some even said that they were hoping they would be able to sell up and move to a cheaper area if they became unable to work. (Source: ftadviser.com)

In the current financial climate, this could make them worse off as they could face negative equity on their home if they sold up. And if they were off work because of illness, finding a mortgage may prove difficult.

It has never been more important for all women to seek advice about protection not only when taking out a mortgage but to protect their contribution to the household wealth.

If you are worried about your own or your partner's protection position contact us right away.

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If a house is worth building, build it yourself

When it comes to moving home we usually head straight to an estate agent or local new-build development. However, there is an alternative – self-build.

Most of us may find the idea of designing and building our own home a bit scary. Isn't this normally reserved for rich people, or for building professionals who know exactly what they're doing?

If you decide to build your own house, you protect yourself to some extent from drops in property values as building your own house usually adds 25% to 35% equity. Also as the credit crunch hits hard, land is becoming more available and cheaper as developers try to offload some of their land banks. What's more, self-builders tend to be good-quality borrowers with low arrears rates and a low loan-to-value ratio once the build is complete. (Source: MortgageIntroducer.com September 2008)

Loan to value is the ratio of the size of your mortgage compared with the value of your home, expressed as a percentage.

For example, if your house is worth £100,000 and your mortgage is £80,000, your loan to value is 80%.

So, instead of buying someone else's house and then remodelling and renovating it, why not build your own and get exactly what you want from the outset. You can decide exactly where you live and how you live.

BuildStore has reported that 2008 has seen a significant increase in the number of self-build land and renovation opportunities – in fact, up 20% between January and June. They also reveal that more than half of the available self-build plots cost £150,000 or less, with a third of them at £100,000 or less. This makes it possible to build a detached family

home for less than £200,000. (Source: buildstore.co.uk)

So, where do I start?

First you need to buy a piece of land, ensuring that you can get planning permission to build on that land. The website www.direct.gov.uk covers all you need to know about finding a plot of land, what surveys you might need and how to go about getting planning permission in your chosen area. And, no matter what design or method of construction you choose to go with, you must ensure you comply with building regulations. The National House Building Council can provide you with all the information you need. Once you have the necessary planning permission, you will need to employ an architect to help you design your home and a builder to build it. You will also need a mortgage.

Mortgage

The mortgage is the area where you need to ensure you plan carefully and have the right mortgage for your circumstances. A self-built mortgage is a specialised product and differs from a regular mortgage. It is important you seek expert advice from your adviser at this point.

Some lenders will release funds at the beginning of each stage of the build, so you don't have to pay up front for each phase yourself and wait to be reimbursed. Others won't release any money until

the project is roofed. Some won't lend against the value of the land and some lenders favour green builders. With so many differences, it is important you get the right mortgage advice before you embark on a self-build project.

Call Lima Financial Services
on **01206 814814**
or **01474 876969** to
discuss your requirements.



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2009 – the year of the first-time buyer?

In November, the proportion of total house buyers made up by first-time buyers rose to 10.4%, the third consecutive monthly increase. (Source: National Association of Estate Agents.) And, during a month that is a traditionally quiet time for the property market.

So, does this offer the long-awaited ray of comfort for first-time buyers who, for years, have found it increasingly difficult to get their foot on that first rung of the property ladder? All the indicators seem to suggest it might.

For starters, house prices are down significantly. In December 2008, the price of the average house had fallen by 15.9% to £153,048 compared with December 2007. (Source: Nationwide Building Society.) Few commentators are predicting where prices will go in 2009 but the pace at which prices are falling has slowed. Looking at the three-month comparative picture, which smoothes out monthly variations, in the three months to December 2008 property prices fell by 4.2%. (Source: Nationwide Building Society.) This is the lowest fall in any three-month period since May 2008.

Property prices may not have reached the absolute bottom yet and nobody can say with confidence when they will. However, the proportionate increase in first-time buyers may show a willingness to move into the

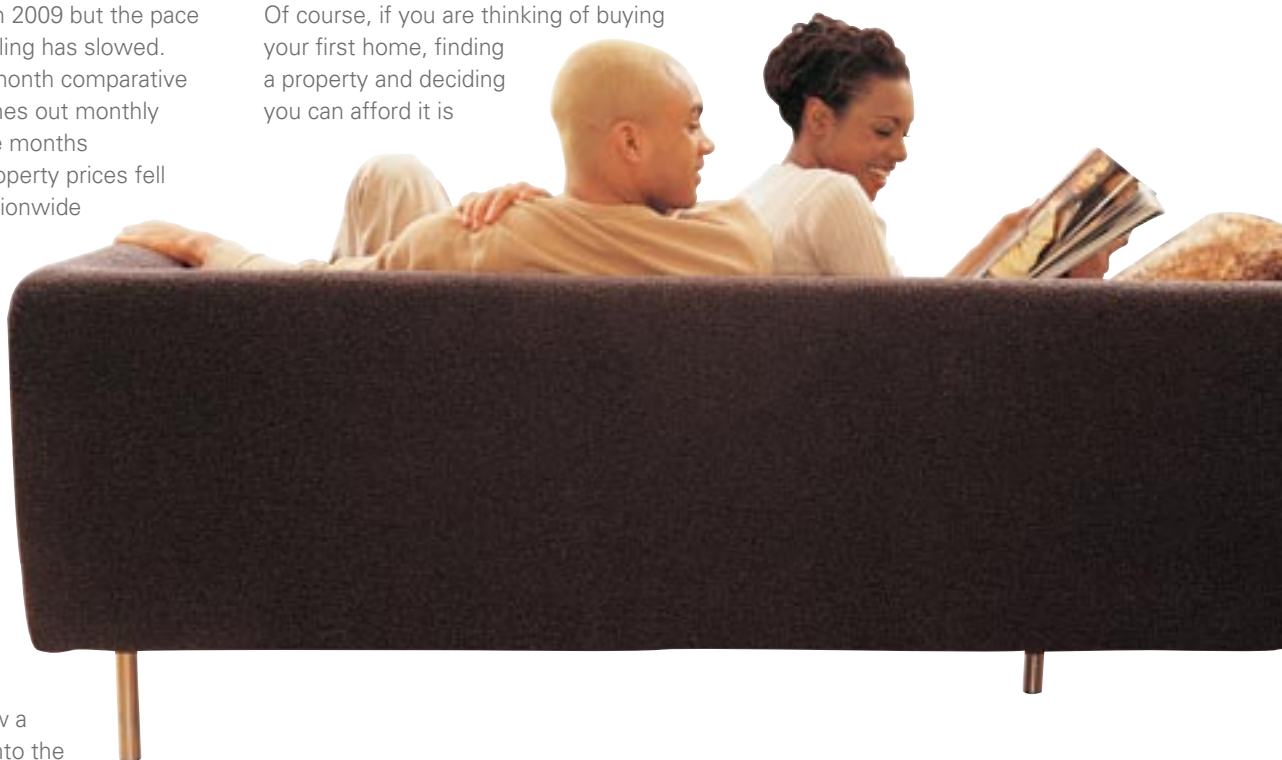
market ahead of the inevitable rush once prices do hit the bottom.

On top of the fall in property prices, the other factor helping first-time buyers is historically low interest rates. When the Bank of England cut its base rate in January to 1.5%, it reached its lowest level since the Bank of England was formed in 1694. Further cuts could give us the lowest base rate in the 300-year-old history of the Bank of England.

Of course, if you are thinking of buying your first home, finding a property and deciding you can afford it is

one thing. Getting a mortgage is altogether different. One of the symptoms of the credit crunch is a reduced willingness to lend by banks and building societies, making it that much more difficult to find the mortgage you need. This is where a mortgage adviser is invaluable.

If you are looking at 2009 as the year you step onto the property ladder, get in touch so we can explain all your mortgage options.



If you wish to discuss your financial needs, or any of the content in this newsletter, please get in touch.

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