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Viewpoint

Your latest newsletter from Eureka Financial Solutions

European legislation hits the UK mortgage market

Back in March 2011 the European Commission proposed a new directive on credit agreements for consumers secured on property, referred to as the European Mortgage Credit Directive (MCD). The new rules came into force on 21 March 2016, but what do they mean for you?

Protecting consumers

MCD introduces standardised conduct rules for firms selling first and second charge mortgages across the EU, designed to protect consumers taking out credit agreements relating to residential property.

The good news is that the UK already has a robust regulatory regime in place, which means the changes coming in under the MCD are relatively minor.

Mortgage Market Review (MMR)

In April 2014, the UK's financial services regulator, the Financial Conduct Authority (FCA) introduced a number of significant changes to its rules around mortgage regulation, known as the MMR. These changes were designed to tighten the rules in a number of areas ensuring that irresponsible lending practices are stamped out of the mortgage market.

In fact, the introduction of the MMR means that many of the MCD's requirements are already met, as the FCA were able to anticipate some of the emerging EU proposals through the recent MMR changes.

The most significant area of change is to the rules around second charge mortgage lending, meaning all lending secured on the borrower's home will be regulated under the FCA mortgages regime.

Whilst the changes are relatively minor, there will be a few new issues that lenders and mortgage advisers will need to incorporate into their businesses, such as:

- Changes to when and how you are told about the range of products that are on offer, any limitations in the services provided and how much mortgage advice will cost.
- A new Mortgage Illustration which has additional information about the cost of the mortgage and an example of what would happen if rates rose to a 20 year high.
- The introduction of a new mortgage offer that's binding on the lender and a new seven day reflection period for the consumer.
- A new approach to monitoring customers' foreign exchange exposure, including where part or all of their income is in a foreign currency, other than Sterling.
- A new classification of 'Consumer Buy to Let' mortgages to provide additional regulatory protection for 'accidental landlords' (people who did not buy the property with the intention of renting it out but ended up doing so).
- Regulation of second charge lending.

Whether you are buying your first home, moving up or down the property ladder, purchasing an investment property or simply remortgaging, the process is often complex, time consuming and for many people daunting!

Contact us and we'll go through the mortgage process with you to help ensure you make the right decisions.

Your home may be repossessed if you do not keep up repayments on your mortgage

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Spring clean your finances

A quick Google of 'Spring Clean' will throw up a million and one Buzzfeed articles or 'life hacks' on how to make spring-cleaning easier and quicker. You'll find tips about using cola to clean the toilet, lemon to clean the taps and vinegar to clean just about anything.

When you're done cleaning your worktops with baking soda and your windows with newspapers, why not try spring-cleaning your finances with our handy hints:

Work out what you're spending

Keeping track of your income and outgoings gives you a great snapshot of your finances. It can help highlight any problem spending areas and where you can potentially make savings. To get started, you'll need copies of your recent bills, wage slips and bank statements. Tally them up and write them down (or use a spreadsheet), including your other main monthly outgoings. Compare this to your monthly income to quickly see your spending patterns and how much you have left over at the end of every month. There are also online tools to help you while budgeting or your bank or building society may have an online tool which takes information directly from your transactions. Alternatively you can talk to us.

Protect what matters

Spring-cleaning your protection insurance is also important as you'll want to make sure you have the right cover for your current circumstances when you need it.

If you're renting a property you will want to protect your belongings. If you have just bought a home you'll need to make sure both your home and possessions are adequately covered. You may even want to consider accidental damage cover or home emergency cover.

If you've recently had a baby, or you have others who depend on your income, make sure you have cover in place to provide financial security for those who depend on you should you become ill or die. Life insurance and critical illness insurance give you the peace-of-mind that you or your family could 'weather a financial storm'.

Invest in an ISA

An Individual Savings Account (ISA) is a tax-efficient way of saving. In the current tax year (April 2016 to April 2017) the government allows you to put up to £15,240 into an ISA and it's important to take advantage of this.

You can save your money in one cash ISA or one stocks and shares ISA, or split the allowance across both types. A cash ISA means you don't pay tax on saving accounts interest. A stocks and shares ISA means you don't pay tax on any income or capital gains you've made on your investments – but obviously there's more risk involved in the latter. The tax efficiency of ISAs is based on current rules. The current tax situation may not be maintained. The benefit of the tax treatment depends on individual circumstances.

Although there is no fixed term, you should consider stocks and shares ISAs to be a medium to long term investment of ideally five years or more.

The value of your stocks and shares ISA and any income from it may fall as well as rise and is not guaranteed. You may get back less than you invest.

Get trusted advice

Discussing your financial needs with an expert can make managing your finances simpler. We can help you establish a financial plan that's designed around your specific needs, make sure it stays on track, and provide ongoing advice that will help you achieve your goals.

If you would like to have a chat about your budget, protection or investment needs, please call us today.

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The Budget 2016: Headlines

Mr Osborne's third Budget in the space of a year included a number of re-announcements from his Autumn Statement, but there were a few surprises.

Lifetime ISAs
From April 2017, adults under 40 will qualify for a new Lifetime ISA. The maximum annual contribution will be £4,000 to which the government will add a 25% bonus (so a £100 contribution will become £125 in the plan).

You can use the funds, including the bonus, to buy a first home at any time from 12 months of opening the account. Or you can withdraw the funds tax free from age 60 for use in retirement. Withdrawals can be made at any time for other purposes, but you'll forfeit the bonus element plus any interest or growth, and face a 5% charge.

At the same time the total amount you can save each year in an ISA will be increased from £15,240 to £20,000.

Personal allowance
The Personal Allowance (the amount of income you can earn before you start paying Income Tax) will increase to £11,500, and the higher rate threshold will rise to £45,000 in April 2017.

The Dividend Allowance
This was a surprise announcement in last year's Summer Budget and also begins in 2016/17. The allowance will mean that the first £5,000 of dividends you receive in a tax year will not be subject to any further tax, regardless of your marginal tax rate. The existing 10% dividend tax credit disappears from 6 April 2016.

Capital Gains Tax
From 6 April 2016 most rates will be cut by 8% so gains will generally be taxable at 10% to the extent they fall in the £32,000 wide basic rate band (2016/17) and 20% if they fall into the higher or additional rate bands. However, for gains on residential property (eg. Buy to Let) and carried interest the 2015/16 tax rates of 28% and 18% will continue to apply. The capital gains tax annual exemption for 2016/17 will remain unchanged at £11,100.

National Insurance
From April 2018 employers will need to pay National Insurance contributions on pay-offs (for example, termination payments) above £30,000 where Income Tax is also due.

Class 2 National Insurance contributions (NICs) for self-employed people will be scrapped from April 2018 and they will only need to pay one type of National Insurance on their profits, Class 4 NICs.

After April 2018, Class 4 NICs will also be reformed so self-employed people can continue to build benefit entitlement.

New tax allowances for money earned from the sharing economy
From April 2017, there will be two new tax-free £1,000 allowances – one for selling goods or providing services, and one on income from property you own.

People who make up to £1,000 from occasional jobs – such as sharing power tools, providing a lift share or selling goods they have made – will no longer need to pay tax on that income.

In the same way, the first £1,000 of income from property – such as renting a driveway or loft storage – will be tax free.

Corporation Tax
The main rate of Corporation Tax has already been cut from 28% in 2010 to 20%, the lowest in the G20. It will be cut again to 17% in 2020, benefitting over 1 million businesses.

Business rates
From April 2017, small businesses that occupy property with a rateable value of £12,000 or less will pay no business rates.

There will be a tapered rate of relief on properties worth up to £15,000. This means that 600,000 businesses will pay no rates.

Stamp duty rates for commercial property
New rates and tax bands are 0% for the portion of the transaction value up to £150,000; 2% between £150,001 and £250,000, and 5% above £250,000.

Buyers of commercial property worth up to £1.05 million will pay less in stamp duty.

Stamp duty rates for leasehold rent transactions will also change, with a new 2% stamp duty rate on leases with a net present value over £5 million.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen. For specific tax advice please speak to your accountant or tax specialist.

If you'd like to know more of the details behind the Budget headlines, please get in touch.

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Too ill to earn

Families

‘Seven Families’ highlights the importance of protecting your income.

Seven Families is a charity-led campaign that aims to raise awareness of the financial and emotional difficulties caused by long-term illness or disability. Launched in November 2014, it follows seven real families in the UK where the main breadwinner has been forced out of work by an accident or illness – without having any protection insurance in place.

The Clarke family

Tracey Clarke and her husband Tim live on a houseboat after financial difficulties forced the sale of the family home.

Tracey was born without functional vision in her left eye. It had never caused her problems until 2011 when her eyesight began to shut down completely. Tracey had to give up driving and, ultimately, her career as a Pharmacy Technician. Soon after, her husband Tim was made redundant.

The effect of losing two incomes unexpectedly meant Tracey and Tim had to rethink their financial plans. They were forced to sell their home of 25 years and find a place that would allow them to live within their means on the benefits they now depend on.

Looking back

Tim and Tracey admit they had to choose between paying various insurance policies and feeding the family. Looking back, Tracey says

“Obviously feeding the family had to come first. We should have looked again at the budget to find a way of maintaining the payments for the insurance policies.”

Have you protected yourself and your family?

Income protection cover will help provide an income if you are unable to work due to an accident, sickness or, in some cases, unemployment.

Get in touch to find out how we can help protect you and your loved ones.

You can find out more about the Seven Families campaign at www.7families.co.uk

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