



# property

NEWSLETTER FROM A1 FINANCIAL SOLUTIONS

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SUMMER

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Innovative products to be created for  
would-be home owners

# BANK OF MUM AND DAD

Innovative products to be created for would-be home owners



**T**he Building Societies Association (BSA) have recently published a raft of recommendations as to how the mortgage industry can support the Bank of Mum and Dad in their endeavours to help first-time buyers onto the property ladder.

They have called for more innovative products to be created to enable parents and grandparents to loan or gift money to family members who are would-be home owners.

The BSA also wants building societies to provide clearer communication to help explain all the options, and it wants regulatory and tax barriers to be broken down.

## **HELPING YOUNGER HOMEBUYERS CLIMB ONTO THE HOUSING LADDER**

The BSA's report recognises the contributions of the Bank of Mum and Dad to date, highlighting the billions of pounds that have been gifted and lent to help younger homebuyers climb onto the housing ladder.

They also confirmed that 90% of all building societies expect this form of financing to play an increasing role in helping first-time buyers over the next five to ten years. Their priority now is to help create an environment whereby the financial well-being of the older generation is not put at jeopardy due to their generosity in helping younger family members achieve their housing objectives.

- 86% of people surveyed wanted to own their own home, but the financial challenges facing first-time buyers meant many thought they would never achieve this aspiration
- In 2017, there were 360,000 first-time buyers – but the minimum should be nearer 450,000. The ability to buy was increasingly concentrated on dual-earning households and those with higher incomes
- More than half of aspiring first-time buyers expected the Bank of Mum and Dad to support them onto the housing ladder

## **SUPPORT BETWEEN GENERATIONS REMAINS A FUNDAMENTAL AMBITION**

The report also highlighted how the Bank of Mum and Dad wasn't just about family members handing over cash in the form of gifts and loans – many customers wanted support between generations through guarantees or using their property or savings as security. Indeed, it also identified equity release or downsizing from larger properties as ways to support the younger generation.

Robin Fieth, Chief Executive of the BSA said: 'Home ownership remains a fundamental ambition for the majority of people...against the challenging backdrop of high prices, a woefully inadequate supply of homes and a growing intergenerational divide, new ideas and strong debate are essential. Family help – the so-called "Bank of Mum and Dad" – is great for those fortunate enough to have this option, but innovations in underwriting could help all potential first-time buyers.'

## **MUMS AND DADS – ARE YOU PLANNING TO LEND MONEY TO YOUR CHILDREN?**

It goes without saying that lending money to your loved ones shouldn't endanger your own financial status. But if this is your plan, then it requires professional financial advice to assess all of your options. If you would like to discuss this subject with us, please contact us.

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

**APPLICATIONS ARE SUBJECT TO STATUS AND LENDING CRITERIA.**



# GREEN LIGHT FOR NEW TYPE OF HOME LOAN

Product choice broadened in the later life lending sector

**I**n an effort to broaden product choice in the later life lending sector, the Financial Conduct Authority now treats Retirement Interest Only (RIO) mortgages as standard mortgages, instead of being regulated under Equity Release rules. This factor, among others, has resulted in several lenders adding RIO mortgages to their offering.

These deals could help thousands of people who have an interest-only home loan that's coming to an end, but don't know how they are going to pay back what they owe. Interest-only mortgages became virtually extinct following the credit crunch, but during the past few years some older homeowners with these mortgages and a big shortfall understandably have been worried they could lose their homes.

## NEW TYPE OF INTEREST-ONLY DEAL

Partly in order to help these people, the Financial Conduct Authority last year gave the green light to a new type of interest-only deal. These products are known as

'retirement interest-only' (RIO) mortgages and are a little more pricey than standard home loans.

RIO mortgages are best suited to those who have an interest-only deal that is coming to the end of its term, but who have been left high and dry because the investment plan that was supposed to pay off their debt has underperformed – or maybe they never set one up in the first place. In theory, you can simply remortgage from your existing deal on to a RIO mortgage.

## RETIREMENT INTEREST ONLY (RIO)

**RIO mortgages are an interest-only mortgage that either has no specified end date, or one a very long way into the future (so as to be highly unlikely that it will be reached). The borrowed capital sum will typically require repayment in the event of one of the following:**

- A sale of the property
- The homeowner having to move into residential care

- The individual finding alternative accommodation, such as moving in with family

## UNLOCKING EQUITY TO FINANCE HOME IMPROVEMENTS

These home loans may also appeal to people who want to unlock some equity in their home to finance home improvements or to help their children or grandchildren buy their first home. Equity release has been around for years and can help both these categories of people.

RIO mortgages are effectively standard home loan deals with one key difference, but the mortgage does not have a set end date and carries on until 'a specified life event' is triggered, for example, on the borrower's death or the date they move into a care home. Until then, they continue to pay the interest each month, and the loan is ultimately repaid from the sale of their property.

## PASSING AFFORDABILITY CHECKS TO PROVE MONTHLY INTEREST PAYMENTS

There is usually a minimum age for these mortgages – typically 55 – and you will need to pass affordability checks to prove you can manage the monthly interest payments. There are also limits on what you can borrow: the maximum loan is typically between 40% and 60% of your property's value.

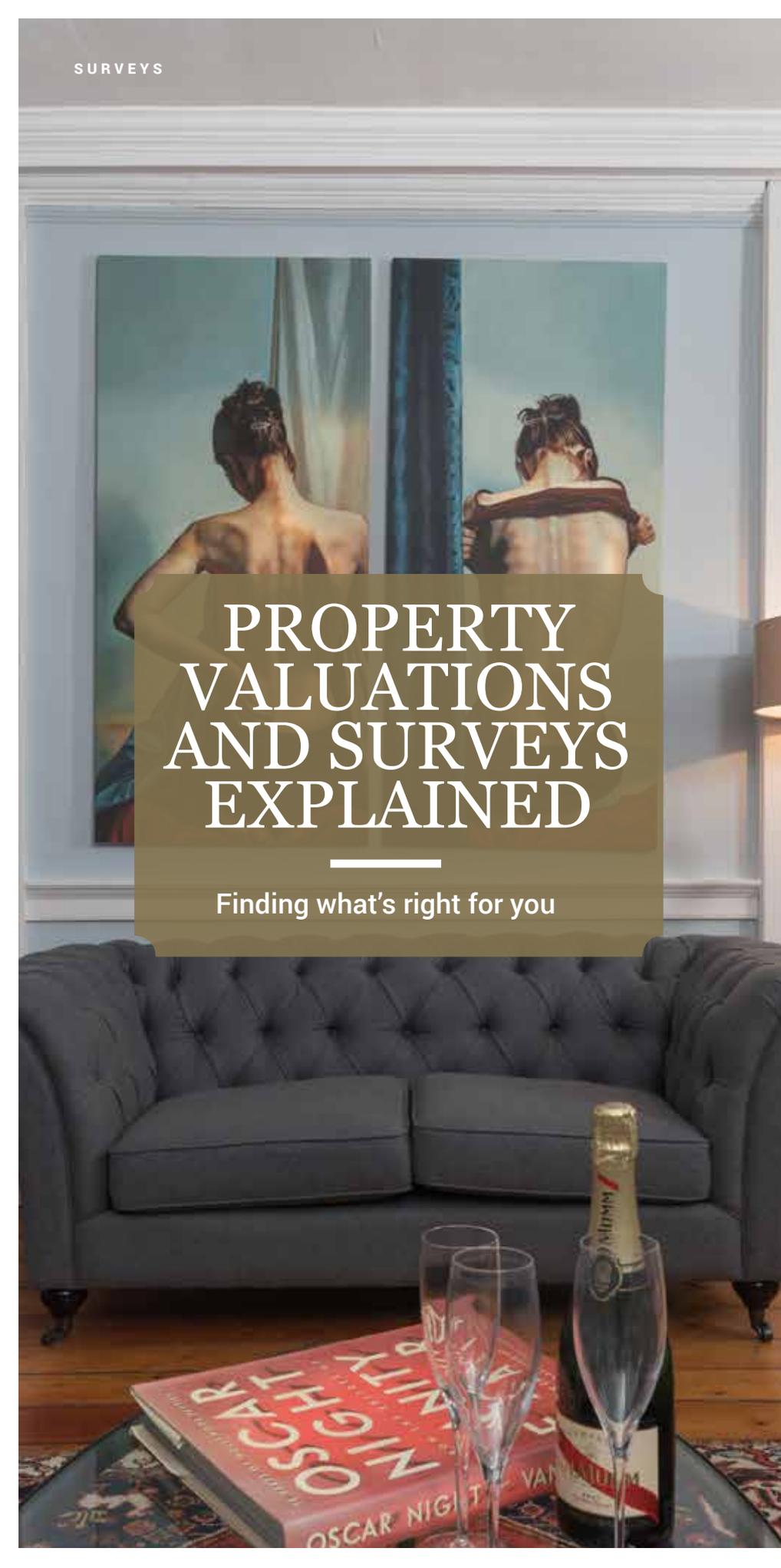
RIO deals are assessed for affordability in the same way as a standard mortgage, with the use of income multiples, and existing commitments are also taken into consideration.

## IT'S GOOD TO TALK

If you would like to discuss any areas of your financial situation, or to find out how we can assist you with your requirements, please get in touch.

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# PROPERTY VALUATIONS AND SURVEYS EXPLAINED

Finding what's right for you

**V**aluations and surveys are an all-over health check on a property, which tell you exactly what its current structural state is. They are usually carried out when the property is about to be sold and can often save the buyer money if there are any major structural problems, as a valuation or survey can bring about a change in the sale price. They should be performed before any contracts are exchanged on the property. A valuation or survey could also make the buyer decide that they do not want to buy the property after all. The valuation or survey is performed on all parts of the property which can be accessed, so the state of the floors underneath, carpets, etc. will not be monitored. The valuation or survey report will also now be influenced by the water supply or wiring within the house; however, their condition will be commented on.

## VALUATION OR SURVEY?

If you're interested in buying a property, the seller is required to provide you with a home report, containing information about the property, including a survey and a valuation.

You may still wish to get your own survey done for peace of mind. However, the home report survey should be reliable. In some circumstances, you may need to get your own independent survey carried out if your mortgage lender does not accept the home report as a basis for lending you money.

If this is the case, you should get your valuation or survey carried out before you make an offer. If you make an offer and it is accepted, you will be legally bound to buy the property. Before you make this commitment, you need to know that there are no major problems with the property and that your mortgage lender will be prepared to lend you enough money.

Alternatively, you can make an offer 'subject to survey'. This means that you will only get a valuation or survey carried out if your offer is accepted. If the valuation or survey is unsatisfactory, you can still legally withdraw your offer. Making an offer subject to survey saves you having to pay for lots of reports if your offers are not accepted. However, some sellers won't accept offers that are subject to survey.

**YOU MAY STILL WISH TO GET YOUR OWN SURVEY DONE FOR PEACE OF MIND. HOWEVER, THE HOME REPORT SURVEY SHOULD BE RELIABLE. IN SOME CIRCUMSTANCES, YOU MAY NEED TO GET YOUR OWN INDEPENDENT SURVEY CARRIED OUT IF YOUR MORTGAGE LENDER DOES NOT ACCEPT THE HOME REPORT AS A BASIS FOR LENDING YOU MONEY.**

There are three different types of report that you can obtain. We've given an indication of how much you might expect to pay for each. In addition to these reports, you might want specific reports by experts on aspects like damp and timber treatment, and these may be free as part of a quotation from that company.

#### **MORTGAGE VALUATION REPORT (SCHEME 1 SURVEY)**

A mortgage valuation report will simply provide a valuation of the property. Your mortgage lender will offer to lend all, or a percentage, of the valuation price. If you choose to offer more than the valuation price, you will have to fund this yourself.

Whoever is compiling the valuation report is obliged to report any major defects in the property. They will not make a thorough investigation so will probably only note any problems that are obvious. This is the least expensive type of report and would cost approximately £250.

#### **HOME BUYER'S REPORT (SCHEME 2 SURVEY)**

This will include a valuation and a more detailed investigation of any problems. Whoever is compiling the report will not go to the extent of lifting carpets or closely inspecting the roof, so structural problems could still be missed. This is

more expensive than the valuation above and will vary depending on how in-depth it is and the property itself, so expect to pay £250-plus.

#### **FULL STRUCTURAL SURVEY**

A full structural survey will provide a thorough and detailed report of the condition of the property. It is the most expensive type of report but should give you a good idea of what you might be letting yourself in for. It is particularly advised if you are buying a very old or unusual property. You will probably pay up to £1,000 depending on the property value

#### **HOW DO I GET A VALUATION OR A SURVEY CARRIED OUT?**

Your solicitor or mortgage lender can organise a valuation or a survey for you. You can also organise it yourself. If you do, make sure the valuer or surveyor is registered with either:

- The Royal Institute of Chartered Surveyors in Scotland
- The Incorporated Society of Valuers and Auctioneers
- The Association of Building Engineers

Your mortgage lender will have a list of companies that they will accept reports from. If you or your solicitor are arranging the valuation or survey, check that the company you are using is included on your mortgage lender's list to avoid having to pay for two reports.

#### **WHAT IF THERE ARE PROBLEMS WITH THE PROPERTY?**

When you get a copy of the report, read it carefully to check for any problems that have been highlighted. Ask your solicitor if you are not sure what something means. If problems are mentioned, you can:

- Decide not to make an offer, or withdraw your offer if it was made subject to survey
- Proceed with buying but ask the seller to fix the problem before you move in
- Get a quote for the costs of the repairs and ask your solicitor to negotiate a lower price with the seller

#### **WHAT IF THE SURVEYOR DOESN'T FIND A PROBLEM THAT LATER COMES TO LIGHT?**

If the surveyor does not survey the property thoroughly and fails to detect a fault that later costs you a lot of money (for example, in repairs or a reduction in the value of your home), they may be liable to pay you compensation. This will depend on the type of report you requested, and you will have to demonstrate that the problem existed or could have been anticipated at the time the survey was carried out.

The Royal Institution of Chartered Surveyors (RICS) has a complaints procedure and an arbitration scheme for sorting out disagreements. You can use these if your surveyor is a RICS member (most are). It is legally binding. For further advice, contact your local Citizens Advice.

#### **WHAT NEXT?**

If you are happy with the valuation or survey, and your mortgage lender has confirmed that they will lend you enough money so that you can afford to buy the property, you can make your offer.

#### **HELPING YOU TO MAKE THE BEST DECISION FOR YOU**

We can discuss a wide range of options available to new and experienced property investors. To help make the best decision for you, please contact us to review your requirements – we look forward to hearing from you.



# GRANGE

## LETTINGS

Boutique letting agent Grange Lettings are offering an exceptional welcome to all new Landlords – a reduced management fee of just 8% plus VAT, and the first 2 months management fee free!

To find out more about this great offer, or to be sent a copy of our landlord information guide which contains lots of useful hints and tips, especially for first time landlords, please call us on **0131 346 4646** or email **info@grangelettings.com**.

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