threshold financial services

VIEWPOINT

Please enjoy reading our newsletter. If you would like to discuss any of the articles further, please do not hesitate to contact us.

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Overpaying your mortgage: should you do it?

Hardly a day goes by without the cost of living hitting the headlines.

For many homeowners the increasing costs of owning and running a home is having a huge impact on household budgets. Even if you are near the top end of your monthly budget or are expecting a ‘payment shock’ when you come to remortgage next, you may be wondering whether it’s worthwhile paying more than the minimum repayment each month, with the aim to save money in the long run.

So, what are the benefits of making mortgage overpayments?

- **Mortgage-free sooner**
  Overpayments can either be a one-off lump sum or a regular overpayment made throughout the year. Overpaying on your mortgage means you can potentially clear your mortgage balance quicker.
- **Reduce the amount of interest you pay**
  It could also make sense to overpay on your mortgage rather than keep your money in a savings account, because you may earn more in interest savings on your mortgage than you could earn in a typical savings account.
- **Access to better rates in the future**
  Lenders will offer you better rates if you have a lower loan to value. The more you can pay to reduce your mortgage, the potentially lower interest rates you’ll have when you come to remortgage to a new deal.

Are there any downsides to overpaying your mortgage?

Overpaying on your mortgage might not be right for everyone. Using savings to overpay on your mortgage could leave you with less cash to fall back on in an emergency.

Not all lenders have the same rules for overpaying and there may be a penalty fee called an Early Repayment Charge (EPC) if you overpay too much.

You should only make overpayments if you’re sure you can afford them. It’s a good idea to make overpayments if you already have an emergency fund, and you don’t have any other, more pressing debts that need to be repaid.

It’s always a good idea to discuss your options with an adviser, we can help guide you through all your mortgage options including advice on making overpayments.

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

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The essentials you need to know about credit checks before borrowing money

The information a lender finds during a credit check is important – it could affect whether you're able to borrow money, including through a mortgage, and the interest rate you're offered. Yet, they can also seem perplexing.

Indeed, a **Royal London** survey found that a third of Brits had never looked at their credit report.

The good news is that we can help you cut through the jargon, so you feel more confident next time you apply for a loan.

Lenders usually carry out a credit check to assess how much risk you pose

Lenders carry out a credit check by looking at your credit report to understand how financially stable and reliable you are. Your credit report includes:

- Personal details, such as your name and address
- Borrowing and payment history
- Current borrowing and credit limits
- Details of people you're financially linked to, like your partner.

If their check indicates that you are more likely to default on repayments, a lender may offer you a higher interest rate, which would affect your repayments and the total cost of borrowing, or even reject your application.

Hard v soft credit check

Two different types of credit searches can be carried out – a hard or soft credit check.

A soft credit check happens when you review your credit report or a lender checks to see if you're eligible for certain offers. A soft credit check doesn't show up on your report.

A hard credit check is usually carried out when you've made a finance application, such as a credit card or mortgage, and the lender wants to take an in-depth look at your report.

Hard credit checks may be noted on your credit report for up to two years and will be visible to other lenders.

Several hard credit checks in a short space of time may affect your ability to borrow as it could indicate you're struggling to manage your finances. As a result, taking the time to understand which lenders are suitable for your needs could be useful as it may reduce the number of hard credit checks that are carried out.

A hard credit check can only be performed with your permission.

Don't worry if you're unsure about the two different types of credit searches and what they mean to you, we're on hand to talk you through it all.

6 useful steps you could take to improve the outcome of a credit check

1. By reviewing your credit report and score before applying for credit, you may have a chance to improve how lenders view you. Here are six steps you may be able to take.
2. Search your credit report for any mistakes and contact the provider to fix them
3. Register on the electoral register to demonstrate stability
4. Reduce your outstanding credit
5. Pay more than the minimum payment on a loan or credit card
6. Avoid late payments by automating bills
7. Be careful about applying for new forms of credit.

Speak to your adviser if you have any questions

If you have any questions about your credit report or are worried about what it means for your future, including the ability to secure a mortgage, please don't worry. You can contact us to discuss your concerns and plans.

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Get savvy against financial scammers

Retired teachers Paul and Mary are devoted parents and grandparents to their three children and eight grandchildren.

As their family started to grow, they decided they wanted to begin saving for their grandchildren's future. Disappointed with the returns from their savings accounts, they decided to look into other investment opportunities. After comparing a number of companies online, they settled on one and made a £30,000 bank transfer. Within just a few months, their initial investment had grown sizably.

Soon afterwards, their eldest grandchild passed his driving test. They decided they'd like to buy him a car, so they made a withdrawal. Being able to do this so easily cemented their trust in the investment company. Over the next year, they made several more deposits.

Paul and Mary then agreed they'd like to help one of their children with a deposit for a house. However, when they tried to withdraw most of their original investment, they couldn't access their money or get through to the company by phone, email or any other means. It was at this point, they realised they'd been scammed.

On top of wiping out most of their life savings, the scam took a toll on the couple's mental health. They both suffer from feelings of embarrassment and guilt, and Paul has developed severe depression.

Anyone can fall victim to a financial scam

Although Paul and Mary feel foolish, financial scams can be extremely sophisticated and trick the savviest of us. We're used to hearing stories about elderly and vulnerable people being conned but recent research by Lloyds Bank found 18 to 24 years olds are most likely to fall victim to investment scams, making up approximately 25% of all cases. And, in fact, victims aged under 45 account for 70% of all reported investment scams.

Types of financial scam

Financial scams take many forms including high-return investment opportunities, like the one Paul and Mary fell for, pensions transfers and health insurance supplements. Criminals use phishing (emails) or smishing (texts) to impersonate trusted organisations and trick people into giving away their personal information or money.

Top tips to avoid being scammed

1. **Follow the advice of UK Finance's Take Five to Stop Fraud campaign**
   - **Stop:** Take time to stop and think before parting with money or personal information.
   - **Challenge:** It's OK to refuse or ignore requests that make you feel uncomfortable. Only criminals will try to rush or panic you.
   - **Protect:** Tell your bank immediately if you think you've fallen for a scam and report it to Action Fraud.
2. **Great deals don't come looking for you**
   Scammers often advertise on social media and the internet. They may also send 'deals' by email, phone, or direct message.
3. **Make sure it's genuine**
   As in Paul and Mary's case, scammers can easily set up fake companies, profiles and websites. Don't underestimate the lengths a fraudster will go to in order to convince you they're genuine. Before parting with any money, it's a good idea to seek professional advice. You can also use the FCA website to check the details of financial services companies.
4. **Protect your payments**
   Consider your payment method. It's very hard to get money back if you pay by bank transfer. Paying by card offers the greatest protection.

The value of mortgage advice from a financial adviser

Harry and Sam have been staying with Harry's dad in his two-bedroomed terrace for just over a year while they save up a deposit for their first house. The lack of space and privacy has proved challenging to say the least and would now like to start searching for their own house.

Despite having saved up a good deposit, friends have warned the couple they would have no chance of getting a mortgage due to their working situation. Sam is a self-employed, successful roofer, but has only been working for himself for two years. His friends have told him, he'll need at least three years of accounts before a lender will go anywhere near him. They say any mortgage the couple can get will be based on Harry's income alone. Harry works as a hairdresser and his salary is nowhere near enough to secure the kind of mortgage they're hoping for.

The value of mortgage advice

Harry and Sam should resign from listening to their friends as when making such an important financial commitment like this, the only guidance they need is from a qualified mortgage adviser. Here are four ways they can make a difference to a mortgage search:

1 They know the market

If, like Harry and Sam, your needs or circumstances are 'out of the ordinary', your options may indeed be more limited than those of other buyers. However, this doesn't mean you don't have options. They know the lenders who are willing to consider buyers in your situation and will check you're likely to meet their specific lending criteria before submitting a formal application. This will save you time and avoid unnecessary searches on your credit file.

2 They know what a good deal looks like

An attractive rate may seem like your best bet when choosing a mortgage but you also need to factor in things like fees, loan conditions and the mortgage term. They look beyond the headline rate and can help you understand how the length and type of loan will affect how much you pay in the long term. They'll also highlight any additional expenses like administration and booking fees, and valuation costs.

3 They do the hard work for you

As well as helping you select the right mortgage, they'll work with you to complete all of the necessary application forms and liaise on your behalf with solicitors, valuers and surveyors. They can also recommend products that provide financial protection should the unexpected happen.

4 They're professionally qualified

They're fully qualified to advise you on a wide range of lenders and products unlike high street banks and lenders. This way you'll gain from genuine choice coupled with quality advice.

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The pros and cons of downsizing

Downsizing could mean lower overheads as well as the extra cash from the sale of your home. But there are factors to consider before you make the decision.

From reducing household bills to boosting retirement savings, there are plenty of reasons why people choose to downsize and move to a smaller property.

It's important to consider interim costs, however, like whether you decide to rent in the area you're thinking of moving to, as the search could take some time. There are also fees to pay when selling your home including stamp duty, survey costs, legal expenses, agents' fees and moving costs. Your adviser will be able to help breakdown these costs for you.

Practical benefits of downsizing

Along with cutting your bills, helping you to pay off debt and putting some money towards your retirement savings goals, downsizing has other benefits too.

The stress of maintaining a larger home might become unmanageable as you grow older – leaving you out of pocket and physically drained too. Moving to a less expensive-to-run, smaller home could make your life simpler, leaving you with more time to do the things you enjoy during your retirement years.

Downsizing and tax

Your financial adviser can guide you through the tax implications for downsizing, like inheritance tax and whether your estate may still be able to benefit from the residence nil rate band (RNRB) even if you have downsized your property before your death. The rules around this are complex and often come with qualifying conditions, however, so it's essential to let your adviser examine your options and potential tax implications beforehand.

If you're considering downsizing, your adviser can expertly guide you through the process, explain your options and ensure you are fully informed throughout the process

Plan ahead when downsizing

It pays to plan ahead for the type of home you need when you're downsizing. Your mortgage adviser can help you do this and ensure you're buying somewhere that's the right size for you, as well as keeping you updated on what your eventual mortgage payment might be. They will also be able to explain the advantages and disadvantages of other options, like moving to a retirement village.

It's an emotional decision too, especially if the home you are selling is where your children grew up and holds happy memories. Talk about it as a family so that you are all clear about the reasons for the move. Thinking about your future and planning what your retirement income and outgoings could be – in your current home compared to a smaller one – is also something your adviser can help with.

Things to think about if you've made the decision to downsize:

- Clear out any clutter before you move and consider selling items (like furniture) you will no longer need.
- Look at your home and assess whether any repairs are needed before you sell. Your mortgage adviser can help you with this.
- Your adviser will also be able to factor in the costs for selling your home and moving to a new one, to help you budget.
- Think about how much space you will need in your new home, for hobbies, work and when guests come to stay.

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