Viewpoint

Yellow Brick Mortgages Ltd

Thank you for 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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What you need to know about self-build mortgages

If you're thinking of building your own home, financing the project may be high on your list of priorities.

Self-build mortgages are different from normal mortgages. They release funds at stages during the building work, rather than in one lump sum when you complete a property purchase. Some lenders also extend a loan to help you buy your plot.

Types of self-build mortgage

There are two main types of self-build mortgage. With an arrears plan, the funds are released as the various stages of the build are completed. With an advance plan, the funds are released at the start of each stage. The lender will specify what the relevant 'stages' in the build are.

Arrears plans are the more widely available of the two. They require you to provide the initial working capital for each part of the project from your own resources, which might be savings or a short-term bridging loan. You are then effectively reimbursed each time by a mortgage advance, although you will, of course, be charged interest on this amount.

With an advance plan, the mortgage can pay for materials and labour in advance. Self-build mortgages only ever cover a percentage of the value of the land or property – around the 75% to 80% mark. So, even if you have an advance plan, you will need fund part of the project yourself.

We're here to help

As well as assessing the merits of the rebuild or renovation project, banks and building societies will also scrutinise your personal circumstances to determine how much they are willing to lend.

The interest rates are higher than for a conventional mortgage, reflecting the higher risk associated. You will also need to pay arrangement fees, which vary from lender to lender.

Once your project is complete and the property is habitable, you may be able to move to a lower rate of interest for the duration of the mortgage.

As you might expect, there is a lot of administration and organisation associated with a self-build mortgage – which is where we come in. As well as helping you find a mortgage, we can guide you through the application process, highlighting the paperwork you need to provide regarding permissions and consent, along with other requirements such as insurance and warranties.

No-one should ever undertake a self-build project lightly and the sort of expert, pro-active support we provide can help ensure the success of this kind of endeavour.

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

OW 490 Exp. 12/02/21

Using a Whole of Life policy to leave a financial legacy

We all know the UK population is ageing. In fact, the Office for National Statistics (ONS) projects more than **24% of people living in the UK will be aged 65 or older by 2042**, a projection that has increased from 18% in 2016. ONS statistics also show the proportion of the population aged 85 years and over is **projected to almost double over the next 25 years**.

Planning for the unknown

Planning for your finances in later life isn't straightforward, as you never know what's going to happen in the future. Is it a good idea to plan for long-term care costs if you don't know whether you will ever need to pay for care?

It is always best to prepare for the unexpected, for example, avoiding the need to draw on savings and investments in later life to meet care costs, which in turn raises another worry that there is less money to leave as a legacy.

Whole of Life

One solution is to take out a Whole of Life policy. This does exactly what it says, by providing life cover that lasts a lifetime, unlike term assurance which only pays out if you die during a set period of time. Premiums are normally paid each month (some companies offer single premium plans) and in return you have life cover for a set amount (sum assured). Some policies also allow you to stop paying premiums at a certain age, whilst cover remains in place, which can be useful for later life planning as you know the maximum time you will be paying premiums for.

Protecting your legacy

Because you know the whole of life policy will only pay out on death, you can direct the policy proceeds to the people you want to benefit, by putting the policy in a suitable trust. This also has the advantage of taking the policy proceeds outside your estate for Inheritance Tax purposes, so you leave more of your estate to the people who mean the most.

What will it cost?

Your monthly premiums will depend on factors inlduing; your age, health, the amount of life cover required and who provides the life cover. Some companies offer non-medical life insurance which can be attractive if you are over 50, but the pay-out will normally be reduced to a refund of premiums, rather than the full sum assured, if you were to die during the first couple of years.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

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It's time to think about life insurance

If you have dependents – people who rely on you financially – then you should have life insurance. In fact, if you have dependents and don't have life insurance, you are exposing them to grave financial risk. And who would want to do that?

Life insurance tends not to feature on 'to do' lists because it makes us confront uncomfortable questions, such as what would happen to our loved ones if we were to die unexpectedly in the next few years.

However, we all carry a deep responsibility to ensure those we leave behind at least have sufficient funds to carry on with life if we're no longer around. That means putting plans in place to address unpleasant possibilities.

Types of life insurance

There are two main types of life insurance. The one most people need is 'term' insurance. This pays out if the policyholder dies within a stated period – the 'term'.

The other type – 'whole of life' insurance – pays out on your death, whenever that occurs. This is more of an investment vehicle than a financial protection plan and is typically used for estate planning.

Dealing with debt

Term insurance pays out money that can be used to clear debts such as a mortgage, lifting a huge financial burden and enabling your loved ones to stay in the family home.

It can also provide for day-to-day living expenses – everything from groceries to utility bills, and from school and university fees to family holidays.

Key points

GET ENOUGH COVER
Buy sufficient insurance to take care of your family until the youngest is financially self-sufficient.

YOU BOTH NEED IT
If you're in a couple, you both need cover, even if one of you stays at home. The proceeds can pay for services such as childcare and keeping up the house.

BUY SEPARATE POLICIES
Joint life insurance covers you both under one policy, but separate policies are more flexible and provide greater protection, although they cost a bit more.

WORK COVER ISN'T ENOUGH
Many firms offer 'death in service' life insurance. However, once you've worked out how much cover you need, you'll probably realise this isn't enough and you'll need a policy of your own.

THE SOONER THE BETTER
The older you are, the more expensive life insurance is, so bite the bullet and buy young.

PUT YOUR POLICY 'IN TRUST'
Doing so places the proceeds outside your estate so it can be paid to your beneficiaries without any delay associated with probate. It also keeps the money from the clutches of the tax man.

REVIEW REGULARLY
Monitor your life insurance coverage to make sure it keeps pace with your circumstances. Events such as marriage, the birth of children and moving home might prompt you to increase the amount of insurance you have.

It is important to take professional advice before making any decision relating to your personal finances.