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The Mortgage Lady publishes regular articles on a wide range of financial issues written both by herself and invited contributors with whom she works.

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Opinion .....

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The SVR (Standard Variable Rate) trap in 2012

2011 has seen the lowest mortgage interest rates in my memory.

For many current mortgage holders, who have passed their initial deal period, their lender's SVR (particularly if tied to The Bank of England base rate) has been offering the major savings in terms of their monthly payments. Many have taken the opportunity to maintain their payment levels at the previous rate, thereby reducing the outstanding capital component of their mortgage quite dramatically – this will subsequently allow such borrowers to protect themselves against rising mortgage interest rates and/or shorten the overall repayment period of their mortgage – however not everyone has felt able to do so and may have relied on such reduced payments to balance their budgets in recent hard times.

While residential mortgage rates remain very low against historical averages there have been the first signs of slightly increasing rates in recent weeks - and I expect this trend to continue.

This is because while The Bank of England base rate has remained at its all time low of 0.5% since March 2009 (and most forecasters expect little rise until the end of 2012 at the earliest) the cost of commercial money supplies has began to rise as a result of external factors (three month Sterling LIBOR is at its highest rate since July 2009 / UK Extended Swap Rates for all terms sit above levels for last year ❶).

While in May 2009 less than 8% of UK residential mortgages were on SVR ❷, by the end of 2011 Barclays/Woolwich ❸ state this is currently around 800,000 mortgages and forecast £4 billion more of mortgages reaching end of term and moving onto SVR in January/February 2012. The Sunday Times stated that "about 40% of borrowers are on SVRs" in a recent article on the subject ❹.

Lenders are generally free to set their own SVRs based on multiple factors other than The Bank of England base rate (even many of those who previously quoted SVRs as tied to Bank of England Base Rate have introduced a second, untied, SVR for new mortgage lending).

All these factors lead many industry pundits to suggest that both SVRs and mortgage rates will continue to rise in the early part of 2012.

To quote a recent Sunday Times headline ❹ "Unrest is already pushing up costs, so consider fixing a rate now". The article continued on to say "Sir Mervyn King, governor of the Bank of England, said last week that the escalating crisis in the eurozone was 'exceptionally threatening' to UK banks. There was already evidence 'that some banks may be starting to pass on higher funding costs to household and corporate customers through higher prices', the bank said. Fears about the exposure of European banks to the sovereign debt crisis have led to a steady rise in bank borrowing costs. Three-month Libor, the interbank rate, which indicates the wholesale cost of borrowing to fund new mortgage lending, hit 1.04% last week, up from 0.89% in September".

It is my opinion that anyone on an SVR mortgage currently should consider 'banking their winnings to date' and remortgaging to fix at the competitive rates still available.

Sources:

❶ - www.swap-rates.com ❷ - http://news.bbc.co.uk/1/hi/7711689.stm ❸ - Sarah Green, Head of National Accounts – Woolwich at The Mortgage Event, Reading (08DEC11) ❹ - Sunday Times 04DEC11

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DIY Divorce

The last thing I would want to do is encourage divorce. In my opinion it rarely turns out to be the solution it appears. However, if you are unfortunate enough to be going through divorce, whether as the divorcer or the divorcee, there is no reason why it should cost the earth as well.

The terms of any divorce should be by consent, and not fought out in court. It really does make sense. Agreeing with your spouse, away from the acrimonious atmosphere of a court room, how you will divide your assets, and what arrangements are best for sharing the care of the children, makes for better relationships between everyone in the long term. Unfortunately, we are not at our most reasonable at these times, and consequently many divorces do end up in court, and the issues fought over are generally the house, maintenance and the children.

I haven't recovered from my own divorce of 10 years ago. I went to a solicitor, which is what most people do, and I wish I never had. Instead of simply handing over to a complete stranger the responsibility for the most important decisions I would ever make, what I really needed was to retain control over those decisions myself, but with the help of someone who had been through the process, understood it, and could advise me what to expect and what to do.

I began to do that for some other dads, and then for some mums, and later I and a few friends set up a Community Interest Company, providing a viable, cost-effective alternative to using a solicitor.

If you are able to agree everything with your spouse, it need cost you no more than a few hundred pounds to do everything: divorce petition, a court order to divide your assets, and agreed care of the children.

Even if you fall out, and cannot agree the terms of your divorce, and you end up in contested court proceedings against your spouse, you are not obliged to instruct a solicitor. Anyone has the right in law to conduct their own proceedings. All standard court forms are now available as free down-loads from the Government's Court Service web-site. You are also permitted to engage the reasonable assistance of a lay adviser, who can draft applications and statements for you, and help you reply to letters from your spouse's solicitor, and sit beside you in court during hearings, as you present your case.

Doing it our way costs about 10% of what you would pay a solicitor. It also means you keep control of the whole process, and make all key decisions yourself.

More and more parents are acting in person as Legal Aid for Family Proceedings becomes harder to obtain and few can afford £200 + VAT an hour to engage a solicitor. Courts are adapting as well to the litigant in person and making the process less intimidating than it once was. Doing divorce without a solicitor is coming of age.

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Property Values – The North South Divide

The plethora of 'property prices drop' and 'property prices rise' headlines of the last years or so is confusing to say the least.

I regularly speak with clients who simply don't know what their property is worth – quite terrifying when you consider that this is probably the most valuable asset in their personal portfolio and it certainly controls how much they can borrow and at what rate.

It is similarly confusing for first time buyers and just adds to their fears of 'the biggest step of their lives'

No-one questions that the continuous automatic year by year 'profit' of bricks and mortar is well behind us – BUT is it as bad as you might be led to believe as a result of scanning the headlines ?

The most important thing to realise is that property A and property B, whether 5 or 500 miles apart, may have performed very differently in recent years. The accurate answer is a very local thing.

If you look at the Nationwide survey (2011 period) the headline 'across the country' increase in value (yes it was an increase) was just 1.1% - so pretty depressing if you feel you are dependent on the value of your property increasing in any way. BUT this includes individual areas with gains as high as 5.4% in the year (London) and losses as bad as 8.9% (Northern Ireland).

On a regional level (at least according to Nationwide) the Outer Metropolitan area continues to show a steady growth of 3.6% (better than you get in your savings account – so perhaps property is still' a good investment' for some). The South East of England generally, Wales, East Anglia and (against the general trend towards the North) Yorkshire and Humberside all beat the national average last year.

But even these regionalised trends don't tell the whole story.

The UK Land Registry provides a public access system that will analyse average house prices over a period at a postcode/local authority level. A random sample of my postcode shows a growth between Dec '10 – Nov '11 of just 0.56% (Nationwide's regional figure is 1.6%) but if I look at a client's property in Reading, just 14 miles away, it has dropped by 1.3% in the same period !

However, not even the Land Registry records above are totally accurate as they are weighted towards aggregating on the basis of council area (when setting up the search you may be offered two or more council options for the same postcode – selecting a different council for the same postcode will vary the result).

Treat estate agent's valuations 'with caution' – while they may well have excellent local knowledge, their approach to valuation will inevitably be swayed by competitive issues (after all they want your business) and their own approach to pricing for sale.

At the end of the day – the only valuation that matters is the one that the lender (or their surveyor) will provide because that is what any mortgage (or loan) will be based on - and to confuse the issue even more, the same valuer may give a different result to a different lender because the core instructions are different.

And a few final points ..... don't expect a £12,000 kitchen and conservatory to add £12,000 to the value, remember that the valuer is looking at your property as better than next door's therefore worth more – the local area and, particularly recent sales of comparable properties are the biggest factor (which means a repossessed house nearby sold below market value – or a cheap 'family transfer') will bring your property value down.

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The New Buy to Let Proposition

The last buy to let boom - in 2007 - saw buy to let sales top 180,000 properties in the year (over 15% of the properties bought with the assistance of a mortgage) but was built on a very different business model to the one taking place at the moment.

The Council of Mortgage Lenders' buy-to-let press release for the fourth quarter of 2011 is due for release on 9th February (just after this article was written) and I am confident in predicting that this will show both the 3rd quarterly growth in succession of properties purchased as buy to lets and the 5th quarter in the last 6 in which buy to lets make up an increasing percentage of the total properties sold in the UK.

While the 2007 boom was driven by forecast capital profits based on the ever increasing value of bricks and mortar, the 2012 boom - while slightly more modest with just 18,580 buy to let property purchases with a mortgage, making 12% of the total purchases in Q3 2011 - is based on revenue based return on capital. This is occurring as result of increasing demand for rental properties from the private sector.

The combination of the difficulty of obtaining mortgages for many potential first time buyers, the lack of public sector housing, a job driven requirement for flexibility in location and many other factors in the current housing market place mean that demand for good rental properties is higher than ever - with the obvious impact on both occupancy rates and monthly rents. I attended an industry conference in December 2011 where one of the country's largest rental agencies stated they had 5 potential clients on their books for every rental property they had available.

The Sunday Times on 5th February 2012 quoted Knight Frank (estate agents) as saying that, nationally, rental yields (based on rental income as a proportion of property price) were 5.4% last year. This is a highly competitive return in today's market and one that might be considered more stable than most. Some areas of London were achieving yields in excess of 10% according to the same article.

Our own experience is that while the buy to let properties we arranged mortgages for in 2009 and 2010 between them were in single figures, nearly 40% of the applications we have processed in the last four months have involved buy to let mortgages and this still apears to be growing.

It really does appear that provided the property is selected carefully in terms of location, suitability and price then buy to let is a genuine investment opportunity for medium to long term investors.

Similarly the prospects for what are often referred to as 'reluctant landlords' - those who find themselves unable to sell the current property at an acceptable price (or needing to move for work, or other reasons, for a period) and needing to move, decide to rent out the property - are improved by the level of demand.

The potential in this market is clearly demonstrated by the number of lenders who have moved back into the markets (and those who have allocated considerably increased lending budgets for the sector) and the steady improvements in rates/terms offered. A number of these lenders only distribute their products via intermediaries/advisers so even experienced landlords are well advised to use brokers for the purchase arrangements.

The real secret to successful buy to let investment must be in the mindset involved - this is not a property that you would like to live in, this not a place you that you want to move to, this is not the decorative style that would bring you a warm glow in evenings by the log fire - it is an investment / money machine / tool of the trade. Keep that in mind, take advice from experienced landlords, do your research and the buy to let market may well be the place to be.

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What does your credit report see ? (part 1)

The lifecycle of the Possessions Register, operated by the Committee of Mortgage Lenders (CML), gives an interesting insight into how credit reports in the UK are developing into more detailed and more powerful databases.

In the mid 1980s, mortgage lenders were fighting a losing battle against mortgage fraud. Fraud rings, involving scores of properties, and millions of pounds of losses for each lender, were rife. Police resources then were scarce, as they are now and by the time the losses came to light, it was invariably too late for the Police to act, as the horse had truly bolted.

The Association of Mortgage Lenders was formed by a large group of home lenders with a view to sharing information about their fraud losses. This worked on the basis of a 'credit circle' – a lawful way of sharing information to prevent either fraud or bad debt.

The CML took over this role in a much more structured way and in 1991 it asked its members to report possessions to a central register that could be added to credit reports as a separate database, which could then only be accessed by CML members. The big difference by that time was that the database was more about preventing serial borrowers from being evicted time after time, than it was about preventing fraud.

In parallel to this, more and more banks, building societies, specialist lenders and mortgage companies started to report the payment history of mortgage borrowers to the main credit reference agencies so they could then have access to full credit reports, rather than just public credit reports which are much less powerful at predicting bad debt.

When reporting the monthly payment history, those lenders could also tell the credit reference agencies when a possession had been made. This meant that possessions then were reported twice on credit reports. Once in the payment history section, and again in the CML Possessions Register. On 30 June 2010 the CML decided to abandon the CML Possessions Register for the simple reason that the data was held elsewhere.

Credit reports are a collection of pieces of data held about you from many sources, and have grown from simple roots – by combining the electoral register with court judgment records – to what is now a very comprehensive report which includes things that technically are not credit agreements – such as mobile phone payment records.

There is still a way to go. Many utility records are not contained on credit reports. Payday loans aren't reported in the detail that many would like. Rates aren't included on reports, and so on. There is no doubt though that they will continue to grow and become an event log of most of life's transactions.

Your credit report is different at each of the credit reference agencies, because lenders do not automatically supply account history data to all three. They may supply one, or two, but only very rarely three. For this reason, the http://www.checkmyfile.com > Multi Agency Credit Report from checkmyfile provides more than twice the information than any other credit report. You can see at a glance how your public credit report compares at Callcredit, Equifax and Experian, or how your payment history is reported by Callcredit and Equifax.

To see your report for free for 30 days, you can trial the subscription service free, after which it costs just £8.99 per month including free credit scores and free identity theft restoration services.

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