

Climbing the property ladder

Summer is traditionally a popular time of the year for people to start house hunting and moving on to, or up, the property ladder. Property can also be a good long-term investment. Over the past 10 years the average house price has risen by 31% and over 20 years by 164% (according to the Halifax House Price Index). Growth like this could be one of the reasons why almost a quarter (23%) of doctors surveyed by Wesleyan say they are investing the majority of their money in bricks and mortar.

Whether you are climbing on to the housing ladder for the first time, gradually moving up it or buying a property as a buy-to-let investment, it is important to get the right kind of mortgage to suit you and work out the best way to repay it.

Choosing a mortgage

There are a variety of mortgages available and the size of the loan, the deposit you have saved, your income and other personal circumstances will all play a part in which one you choose.

Two of the most common types of mortgage are:

- Fixed rate – these have a set level of interest for a designated period of time. Many first-time buyers prefer this type of mortgage as it helps them to budget more effectively.
- Variable rate – borrowers who are able to adjust their budgets to cope with changeable payments may decide they would be better off with this type of mortgage, which falls into two main categories: trackers and standard variable rate.

Interest rates on tracker mortgages typically move up or down in line with the Bank of England base rate. This benefits

the borrower when the rates fall but payments will rise when rates go up.

With standard variable rate mortgages, each lender sets its own rate of interest and these can go up or down depending on market forces.

Those looking to use a property as an investment may choose a buy-to-let mortgage (see below). These work like a stand-

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ard mortgage, but lenders take into account your income, as well as potential rental income, when deciding how much they will lend.

How to repay

Once you have decided on the kind of mortgage you want, you need to consider how you will repay it. Two of the main options are repayment or interest only.

If you opt for repayment, it means that over the length of the mortgage you will eventually pay off the full amount borrowed plus interest. Interest only is where you pay off the interest element only as it accrues each month. The payments will be lower, but at the end of the mortgage term you will still owe the amount you originally borrowed, and most lenders will insist that you have a strategy in place to pay this off, e.g. using any other savings and investments you may have, or selling the property, to pay off the remaining amount.

Buy-to-let

Buy-to-let mortgages are normally interest only and generally the cash from the sale of the property is used to repay part or all of the outstanding amount.

If you have a large lump sum to invest and are thinking about building up a buy-to-let portfolio, you might want to consider using the cash to put deposits on a number of different properties.

Having more than one property to rent will help minimize your exposure to risk, so if one property is vacant, rent generated from the others may help cover it. As the economy recovers, there could be long-term returns if property values increase.

However, there are tax implications for buy-to-let investors. Her Majesty's Revenue & Customs regards any income that comes from rental properties as investment income, so it can be subject to income tax at 20%, 40% or even 45%. However, landlords are able to deduct costs from the taxable portions of their rental income.

These can include the interest of their buy-to-let mortgage repayments.

Protection

When you become a home owner, protecting your income becomes essential as you will want to ensure that you can keep up mortgage repayments if you fall ill or are unable to work for any reason. An income protection plan will pay you a regular tax-free income at, typically, 50% of your pre-incapacity earnings until you are able to return to work. If you have a family you may want to consider taking out a life assurance policy incorporating critical illness cover. These policies will pay out a lump sum if you are diagnosed with a defined medical condition or if you die. This lump sum can be used by you or your dependents to pay off the mortgage.

Conclusions

Buying a property, whether it is to live in or as part of an investment portfolio, can be time consuming and stressful. You might want to take guidance from a financial adviser to ensure that you find the right mortgage to suit your needs. Check that your adviser can make a comprehensive analysis of the market and is not restricted to a small number of providers. **BJHM**

The above information does not constitute financial advice. For further information please speak to your financial adviser.

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