



ROSE

Financial Planning

Is your home for YOUR benefit ... or for your end beneficiaries?

It's an odd question I know, but a very powerful one which I use to determine the attitude of property owners and whether the equity in it can, or should, be used to improve the lifestyle of you, the present owner.

What I mean in posing this question is as follows; are you one of those people who will scrimp and save every last cent to ensure that your property, that you have worked all your life to own, is passed to your estate in tact, for the use of your end beneficiaries (your children and grandchildren)? Or are you of the mind, like myself personally, that my kids will get what they are given and be thankful for it?

Which camp do you fall into?

This is a serious point because, in my role here at Rose FS, I see the most extreme of circumstances and probably the one that frustrates me the most is where a client is the classic 'Asset Rich, Cash Poor' where they are in desperate need of financial assistance, but I am 'hamstrung' because of this obscure logic in protecting an asset, their home, for the family, and I cannot use the equity in it for the people that count today and, in most circumstances, for the client who has created that wealth through years of hard work!

You see many, many people move to Spain and make some fundamental errors of judgement. This is not a criticism but an observation based on years of practical experience in personal financial planning. And these 'oversights' are as follows;

- i) They do not research 'financial' life in Spain enough. By that I mean they do not really plan having assessed the cost of living, the impact of financial emergencies, access to flexible savings, manipulating tax to their benefit.
- ii) They 'assume' that they do not need nor want a mortgage without understanding the strength that it brings to basic protection against certain taxes, and the flexibility that it brings financially.
- iii) They commit far too much of their capital to their home and leaves themselves short in savings.
- iv) They do not explore tax breaks. For retired individuals over 60 these can be significant, but how many people consult a Financial Advisor/Tax Accountant before they make the final decision? Very few!

Far too many people make the jump based upon an assumption; and that is that financial life in Spain is pretty much the same as in the UK only that is cheaper to live. That is simply not so, and without some safety nets in place some people pay a hard price for that assumption!

So can these 'oversights' be corrected? In short Yes in the majority of circumstances. But you need advice to ensure that the best is made of it!

To many this will translate into restoring some degree of 'rainy day' money because retirement income is not going as far as was hoped, and savings are dwindling. That is a relative simple fix, but there are many routes that can be taken to achieve much the same end, and that is why you need to seek specialist assistance from professional advisers.

So to options!

There is a subtle difference between banks here in Spain and the UK, and how they view lending to the older generation.

In the UK, as with most elements of lending via the use of a secured mortgage, the market is highly competitive and developed i.e. we have had years to identify client requirements and to fill the gap with carefully manufactured products. British banks also have a very, very different attitude to lending risk borne from practical experience at the coal face for many years. The same cannot be said here in Spain. Not yet anyway!

Consider the 'pure' Equity Release or 'Interest Only roll up' facilities on offer via the newer style 'Lifetime' mortgages (to give the product the Financial Services Authority's correct title). The market was identified some years ago, where borrowers, almost certainly close to or already in retirement, were looking to release some of the capital locked into their homes. This often was combined with low income. The attraction from the lenders perspective was that of controllable risk; they need only advance a relatively small percentage of the property value (thus allowing interest to be rolled up or added to the principal) but, of course, the property value would continue to increase as the years marched on. The benefit to the client; effectively free borrowing with no debt servicing to worry about. The repayment is deferred until death and it is the eventual beneficiaries' concern to unwind at that point.

But at last, we have a full product portfolio which can greatly help! These can even be simple, vanilla mortgages combined with more sophisticated financial planning. The applicant's age is not restricted and neither do they need to show affordability for the repayment of the monthly mortgage bill. The loan is based upon the value of the property alone.

The 'perfect' product will involve no debt service to the client; no cash flow drain! The 'Lifetime Mortgage' achieves that BUT it is not the only way to reach the goal!

The reality is that the market in Spain is still too juvenile; lenders have little understanding of what we need to achieve for clients, but it is coming. In the last two years the product range has grown immensely so time will get us there!

The reasons for this are several;

Firstly, the complexity of the market. Until less than a year ago, 'Interest Only' products barely even had a mention. In the UK these have been around for 30 years. The Spanish, British and American lenders operating here have finally twigged that British borrowers, in particular, love 'Interest Only' mortgages and we can now provide them with some depth of choice. So we, the brokers influencing the lenders, have moved that market on. But that is one product only. What about other areas including the 'pure' equity release market as mentioned. These will come but time is needed.

Secondly, the lenders attitude to risk. Spanish banks in particular take a far more conservative approach to lending in general and are traditionalists by nature. So new ideas take time to introduce, and for necessary analysis to be carried out. Equity Release is new even to the UK so, I would suggest, it will take another year or so before this KEY area of financial planning is explored more fully by lenders.

But the good news is we are just about there! There are few circumstances where we cannot help so, if you are one of those home owners who fall into the 'Asset Rich, Cash Poor' classification, do not be proud but be sensible! Pick up the phone and explore the opportunities open to you to change your financial life!

See www.rosefp.com or call 0034 677 874 948.