Finance focus

South Africans face unique issues when living in the UK, which are compounded when they face the decision to go home, or simply have no choice but to go home. Sable and the *SA Times* will run a series of case studies that may provide the solutions to the most often-asked questions or the most common challenges faced by South Africans.

Mortgage your property wisely

Patrick has owned a property in the UK for the last three years. When he first purchased his house it was difficult for him to obtain a mortgage in the UK because he didn't have a history of earnings. Eventually a lender accepted him and, although on a high interest rate, he was happy to finally be on the property ladder. But Patrick is having second thoughts. Why is he paying 1.5% over Bank base rate for his mortgage when he hears about all these great rates being advertised?

Patrick asks ...

"What is the best way to mortgage my property?"

Doug and Malcolm, Sable's advisers, reply ...

Understand your options and focus on the best interest rate.

Doug: "The UK mortgage market is the most competitive and diverse in the world. It's easy to get lost in the details of thousands of products. The key issue is your effective headline rate over the term you hold the mortgage. This effective rate is the rate you get for the two or three-year initial period (fixed or discount), once the fees have been worked in. Fancy features tend to be marketing gimics and increase the cost of the mortgage considerably".

Malcolm: "Agreed. Too many people look for flexibility and, in my experience, very few of them actually need or eventually use that flexibility. Firstly, good financial planning removes the need for these options. Secondly, with flexibility comes expense. A fully flexible mortgage is often a whole percent higher on the rate. Lastly, as a South African, the interest on your offshore savings is not taxed, so you should utilize an offshore bank account as your flexibility not your mortgage – it works out cheaper in the long run."

Doug: "Focus on playing the banking game. Most mortgage products have a discounted initial rate over the first few years. Banks know how to attract people with a low initial rate. So they rely on initial fees and customer complacency to not change their mortgage after the initial discount term is up. Mortgages, like investments, require ongoing management. Look to remortgage every few years, chasing the best rates and utilizing the special discount offers. Remember, not all lending products are available to the general public. A large portion of special deals are only available through the broker community".

Malcolm: "My pet hate is the offset mortgage. Although a fantastic concept for the Poms, it is by far the most expensive option for we Saffas. These mortgages only really apply if you pay higher rate tax on your savings interest. You don't pay anything if you uitilise your non-domicile tax status effectively, so it's no use being charged an extra percent with the pretense of saving interest on the offset portion."

Doug: "Lastly, use a mortgage broker. I cannot stress this enough. There are 148 providers out there and each of them has different lending criteria. The cost of a mortgage is an intricate mix of rate, penalties, upfront fees, and features. At least take the advice from the broker, it's free up until the point you actually get the mortgage. Good brokers should always find a better rate than you could get yourself. In addition, we Saffas often get caught in the approval process at the last step and many of the advertised rate don't apply to us. A broker knows which mortgages you will most likely qualify for."

Next month Ken and Claire ask about bringing their SA assets into the UK. Sable is a financial services firm focused specifically on South Africans based in the UK. Go to www.sablewealth.com for more information, ask your question and we'll publish it. Send a quick overview of yourself and your question to *SA Times*.