ISIS FINANCIAL PLANNERS Snowed Under?

News from Louis Letourneau.
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With debt piling up like snow around the nation Louis Letourneau has some handy hints to keep in the warmth.

I know it's been a mild winter so far, but there have been indications lately that the financial climate's getting a little frosty. Interest rates have been going up steadily over the last couple of years, and I predict another rise of a quarter of a percentage point before rates stabilise again.

It would be wrong to get this out of proportion. Interest rates are still low compared with 20 years ago – one of my colleagues was paying over 12% interest on her first mortgage! And it's better that the Bank of England's Monetary Policy Committee increases the rate now, if it means that we don't have to face rampant inflation in the future.

Still, when we look at interest rate rises in the context of the general financial environment, a decidedly chilly picture does begin to emerge. Recently, increasingly more people have been declaring themselves bankrupt, and home repossessions are higher than they've been for a number of years. Yet Abbey have decided to offer mortgages of up to *five times* income to some borrowers; a sensible response to competition in the lending market or sheer desperation?

It's also been suggested that some banks and other providers may start charging an annual fee for credit cards – this in response to the maximum penalty charge being capped. I don't think that'll happen; it's such a competitive market that nobody wants to lose the edge – but it's a sign of the way the wind is blowing. Only recently, one bank reintroduced charges on its current account for some customers.

As a nation, we're addicted to credit – we owe more per head than any other European country, so it may be no bad thing if the costs of borrowing increase. Although the Monetary Policy Committee's primary concern is control of inflation, don't tell me that they don't also look at the property market. For most of us, property is our major asset, and a crash would have devastating consequences for the economy. When it increase rates, the MPC's also hoping that it'll damp down property prices.

As I've said, it would be wrong to worry unduly at present. We don't have high unemployment, and the conditions which created the last recession aren't present. With careful handling, the economy looks set for a soft landing.

One group of people who should be careful, however, are those who've taken out mortgages to fund buy-to-let properties. This sector has been especially hard hit by repossessions recently. Make sure that you aren't over-stretching your finances, and that you could cope with further interest rate rises, a drop in rents or a period when the property is empty because you can't find a tenant.

As for the rest of us, maybe this would be a good time to look at our borrowing, especially as some pretty hefty bills are likely to be dropping through the letterbox any day now.

So, what can you do? Well, you could start overpaying on your mortgage. You'll be surprised to find how even a small additional payment every month can make a difference in the long run. If your employer pays a bonus, you could earmark part of that as a mortgage repayment - assuming that your lender allows you to do so without penalty.

The most important single thing you can do, however, is to make sure that you build up a substantial cash fund to tide you over in case of an unforeseen emergency. Most financial advisers recommend that you keep between 3 and 6 months' net salary in a high interest, easy access cash account. A cash mini-ISA is ideal for this purpose – and the interest is tax-free as well. The Chancellor of the Exchequer announced recently that ISAs would be a permanent fixture on the savings scene; previously, he'd only committed to keeping them until 2010.

If your credit card debt is high but not unmanageable, you may be able to get some temporary respite by moving to a card that offers a 0% introductory deal for a fixed period, typically 6 months. As you won't have to pay interest during this period, every penny you do pay helps to reduce your debt, and that may be all to need.

However, for some the burden of personal debt is so high that they can't cope with it. If that's the case, don't be tempted by the adverts which encourage homeowners to consolidate their debts (and often borrow more) and secure the new loan on their property. That can result in you losing your home. If the situation's bad, get help. Contact your local Citizens' Advice Bureau (0207 833 2181 or http://www.citizensadvice.org.uk/) or get in touch with the Consumer Credit Counselling Service (0800 138 1111 or http://www.cccs.co.uk/) , a non-profit organisation which can help you negotiate a debt repayment plan with your creditors.

Louis Letourneau, **MA** is an experienced independent financial adviser (IFA), specialist in financial planning and wealth management. He founded Rainbow Finance in 1995 and has consistently challenged financial companies and Government on their attitudes to gays, lesbians and same sex couples and was instrumental in the Inland Revenue to changing its guidance notes to recognise unmarried couples in pension benefits. His work has also resulted in life insurance companies starting to relax the discriminatory underwriting criteria toward gay men and people living with HIV. He was a founder of the Rainbow Research Project which surveys and educates private pension schemes in how they recognise unmarried couples on death benefits. He was also a founder member of the Stonewall Immigration Group (which campaigned for Immigration rights for same-sex couples, achieving a significant victory in April 1997) and helped set up the gaypartners.org initiative with gay.com in early 2001, campaigning for same-sex partnership rights. He speaks regularly on national and local radio.

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