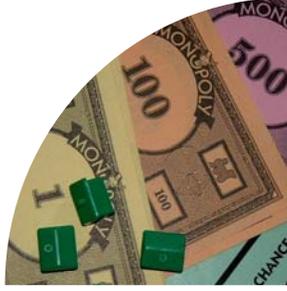


THE COST OF LIVING

YOUR FAMILY'S GUIDE TO MONEY



BEATING THE CREDIT CRUNCH

You don't need to be a financial expert to know that times are a little tougher for families across the UK. In the twelve months to August 2008, petrol prices rose by more than 17p a litre, and diesel rocketed by more than 27p. At the same time, food prices – even for basics like bread and milk – have steadily gone up, while gas and electricity bills have gone through the roof.

With this kind of inflation, the cost of feeding, clothing, transporting and housing a family is heading skywards. Without a pay rise or some savings in the bank, all but the most carefully managed family finances could soon unravel.

But salaries are staying put as long as our employers also feel the pinch, and not everyone has savings to draw on – so how do you ride out the current climate and enjoy family life without getting yourself into debt?

That's the question we've set out to answer in this e-book. In the next five chapters we'll talk you through the finances of your home, car, borrowings and savings, holidays (well, everyone's got to relax), and the other bits and bobs that make up family life. For each, we examine the biggest costs families face, and the biggest savings they can make. There's advice, top tips, and examples of families who've made great money-saving changes.

How do you enjoy family life without getting into debt?

True, it's not an easy time for family finances, but with a bit of careful budgeting, and the advice and examples contained in this e-book, we hope you'll beat the credit crunch, and be in even better shape when it's over.

CHAPTER 1 HOME



Buying a home is the biggest purchase most of us will ever make, and paying for it is likely to be our biggest monthly outgoing.

Property prices are falling, but the cost of borrowing for a new home is rising. At the time this e-book was published in Autumn 2008, the average interest rate for a two-year fixed-rate mortgage was around 7%.

The credit crunch has caused a hike in arrangement fees for mortgages, too, as lenders have become wary about who they will lend to and how much. One hundred per cent mortgages have vanished from the high street, and many borrowers will now struggle to get a mortgage, even if they have a 10% deposit or more.

On the plus side, the chancellor recently raised the stamp duty threshold from £125,000 to £175,000 – saving home buyers up to £1,750. The higher threshold applies until 3 September 2009.

INTEREST RATE OPTIONS

Interest rates on mortgages are usually either fixed-rate – where the interest rate remains the same for an agreed number of years – or variable – where the interest rate on the mortgage will rise or fall in line with a rate set by the Bank of England (the Bank rate).

In either case, monthly repayments cover the interest on the loan, as well as paying off a small amount of the mortgage itself so that the sum you owe becomes smaller. It's possible to switch to interest-only payments, but cutting back on repayments will mean that you continue to owe the same overall amount.

If you're coming to the end of a fixed-rate deal, your mortgage payments are likely to go up when the deal expires and the interest rate reverts to your lender's standard variable rate (SVR). A couple of months before it does, shop around for a better deal so you're ready to switch to a different mortgage, also known as *remortgaging*.

Switching your mortgage could save you hundreds of pounds a month and is very common – particularly when interest rates change.

It's also possible to switch to a new mortgage and stay with your original lender, if they offer the most competitive rate. This will often still mean paying a new arrangement fee, or at the very least some form of administration fee. When you apply for a new mortgage rate, the lender has to give you a personal key facts illustration, which will contain details of all of the relevant fees.

Make sure you consider the total cost (including all fees) of a particular course of action when deciding whether to stick or switch.

There are many price-comparison websites, including well-known ones such as moneysupermarket.com, gocompare.com and confused.com. The personal finance sections in magazines and newspapers – or their websites – can help, too.

Get impartial advice from an independent financial advisor

But don't just switch to the cheapest deal. It might not be the best for your circumstances. You can get advice from an independent financial advisor – at the time this e-book was published you could download a voucher for a free consultation from unbiased.co.uk, the consumer website of independent financial advisors.

Also, watch out for hidden costs involved in switching mortgages, such as an early repayment charge. These can amount to hundreds – or even thousands – of pounds and wipe out any money saved from switching.

CASE STUDY

Frank is 29 years old. He took a £200,000 mortgage (variable rate with no tie-ins) on a two-bedroom flat at the start of 2006 when his interest-only payments were £800 a month. This subsequently rose to £977; more than Frank could afford.

He solved the problem – after making sure to notify his mortgage provider and insurance company – by taking in a lodger, who rents a room for £350 a month. At £4,200, Frank’s total yearly rental income is just below the £4,250 tax threshold, so his lodger pays almost half of his mortgage without costing him anything in tax.

Despite the gloomy financial outlook, Frank expects interest rates to come down in the short-to-medium term, and expects that his mortgage payments will be similar to when he started two and a half years ago. For the time being, he is looking to reduce his risk.

“I had to take in a lodger because otherwise more than 40% of my income would have been going on my mortgage, and I felt that would be too much of a risk.”

Taking in a lodger was fraught with the fear of the unknown, but Frank says that his soon became part of the family.

“It was a bit daunting at first because you don’t know what you are going to get,” he said. “But after my mortgage repayments went up around a year ago, it has been a great help.”

Frank believes it is a trend that will become more common over the coming months.

“It is something that will help now more than ever. To be stuck with that mortgage on my own would have been a great worry – everyone has job worries at the moment.



“With the downturn in the economy, we will definitely see more people ‘doubling up’ to avoid having a large financial yoke around their necks.”

GETTING YOUR CHILDREN ONTO THE PROPERTY LADDER

Helping your children onto the first rung of the property ladder is more expensive than it used to be. Mortgage lenders are demanding bigger deposits; and a 25% deposit on the average first-time home is just under £38,000, according to consumer group **Which?** It advises parents to make clear whether they are making a gift, a loan or an investment.

Also think about what is the best way to help your child. Acting as a guarantor for the mortgage might be more useful than giving them a deposit to put down on a property, for example.

SELLING IN A FALLING MARKET

If you need to sell your home now there are tried and tested ways to help ensure your property sells at the best possible price. Find an estate agent who's experienced in a slow market. And remember the old advice about how to present your property well. Make sure it has good "Kerb appeal" – i.e. that the outside of your house is clean and tidy to make a good first impression.

Price your property realistically. Going for the top price in your area could mean you don't find a buyer for months and you then have to drop your property price even further – check prices in your region.

INSURANCE

You normally need two policies for your home – one for the building itself and another for its contents – although in practice many people get both from the same insurer, typically as a single product.

Buildings insurance covers the structure of your home – for example the walls, windows and roof – and also permanent fixtures and fittings like baths and fitted kitchens. It usually covers damage including that from fire, lightning and so-on. If you have a mortgage, your lender will insist that you take out buildings insurance, but you don't need to do it through them. If you're a tenant it's down to your landlord to arrange it, but you'll need to arrange your own contents cover.



How much cover you need depends on whether you choose a sum-insured or bedroom-rated policy – ask an insurer to quote for both. A bedroom-rated policy is based on the number of bedrooms you have. With sum-insured, you decide how much cover you need, and the insurer calculates your premium – choose a sum that will cover all of your belongings. Options might include accidental damage, covering accidents like spilling a drink onto a TV or hi-fi.

Lower your premium by securing your home – fit a burglar alarm or uprate locks, for example. Insurers offer lower rates to people who haven't claimed as they consider them a lower risk. If your claim is small, you may wish to pay for it yourself rather than claiming and potentially affecting your premium. Shop around using comparison sites, or the **Defaqto comparison tool**, but remember that policies vary – check the details to be sure you get the right level of cover.

HOME IMPROVEMENT

Some home improvements aren't voluntary. A leaky roof or dripping pipe work will need patching up or replacing before water damage makes the problem worse. Left unattended, a small problem could become a major home emergency. Nearly all insurance companies provide a helpline that can guide you through common domestic disasters and arrange for quick repairs – make sure you keep the number handy.

Other improvements are of the “nice to have” variety, many of which will add to the value of your home. If you work from home, converting a spare bedroom into a home study could give you a professional working environment. It's normally possible to do this without resorting to expensive building work, but make sure that your insurance will cover you working at home.

Also consider home improvements that make your house greener and save you money by reducing your energy use. Insulating your loft will cost between £250 and £500, depending on whether you fit the insulation yourself. It should save you around £155 per year on your energy bills. Insulating internal or external solid walls will cost around £42 per square metre, but it could slash up to £360 a year from your energy bills. And turning down the thermostat by 1°C will save you around £40 a year.

The **Energy Saving Trust** website has more detailed information on energy-saving home improvements, and a section to help you **find out if you qualify for a suitable grant**.

Which? Magazine asked estate agents to rank improvements that add the most value to your home. The top five were:

- extension/loft conversions
- adding a bedroom
- creating off-street parking
- fitting a new kitchen
- fitting a new bathroom.

ENERGY Soaring gas and fuel prices are putting extra strain on family finances. British Gas owner Centrica recently hiked gas prices by a record 35% and electricity prices by 9%. The other big energy suppliers look set to follow suit. But compare gas and electricity tariffs using one of the free price-comparison websites, such as uswitch.com or moneysupermarket.com, and you could find a cheaper supplier. Most comparison sites will handle the switch for you, by letting your old supplier know that you are switching and setting up your new account. Your new supplier will contact you directly to update you on your switch, which can take up to six weeks.

USE A WATER METER



Water prices have been going up, too, but you may be able to save money by switching to metered water. There's a handy [calculator on the Consumer Council for Water website](#) which will help you work it out. People living alone or those who currently pay higher than average charges are most likely to benefit. Water companies install meters for free, and if customers see their bills rise they are usually able to switch back to standing charges within 12 months.

Metered water could save you more than £200 a year. You can reduce wasted water by fixing dripping taps, installing water-saving devices in toilets, taking showers rather than baths and collecting rainwater for use in the garden (see below).

FOOD

Food prices have shot up over the last 12 months, particularly for staples like milk, rice and bread. Some of the steepest rises have been in the price of meat, which is up by 16.3% over the past year, while bread and cereals are up by 15.9%. To help reduce your bill, enter your shopping list into the free mysupermarket.com which will work out the cheapest supermarket for your area and send you to the store's online checkout.

You can cut your food bill further by **throwing away less food**. UK households throw away 6.7 million tonnes of food every year – about a third of what we buy – according to the Waste & Resources Action Programme (WRAP). Each household could save on average £400 each year by simply stopping throwing away food that is still edible.

GROW YOUR OWN

Growing some of your own food will save you more money – and boost your eco credentials. A plot as small as 4ft x 4ft (1.2m x 1.2m) could supply vegetables all year round for as little as £50. For help and advice try web sites such as [Grow Your Own](#).

If you are growing your own food, you'll be able to keep watering even when there's no rain and a hose pipe ban if you **re-use 'grey water' from sinks, showers, baths and washing machines** – it's possible, but not cheap, to have a suitable storage system plumbed into your home.

TV AND PHONE

One way to cut your communication costs is to combine your phone, TV and broadband internet access into one package – many telephone and internet providers now offer several services bundled together at a discounted price.



However, with so many on the market, finding the best deal can be time-consuming. Watch out for time-limited discounts, long-term contracts and extras like connection fees.

Consider how much data you'll need to download. If you want to download lots of films and music then it might be worth going for a deal that allows unlimited downloads – measured in gigabytes per month. The speed of the broadband – usually measured in megabits (Mb or 'Meg') per second – will also influence the price you pay. The cheapest broadband packages generally start at 2Mb, but this will seem slow if you download lots of music, TV or films.



**SHOP AROUND ONLINE FOR A
BETTER MORTGAGE RATE**

**CUT YOUR HOME INSURANCE
PREMIUMS BY IMPROVING
YOUR HOME SECURITY**

**CONSIDER USING A WATER METER
TO CUT YOUR WATER BILLS**

**USE A SUPERMARKET PRICE-
COMPARISON WEB SITE TO
CUT YOUR FOOD BILLS**