MONEY MAKEOVER

‘Divorced at 34, I’m left with £25k’

Getting back on the property ladder is father-of-two’s next step, says *Laura Suter*

James Cope, 34, is rebuilding his life after divorce and wants to get his finances back on track. The father-of-two, who works in technology, received a £25,000 divorce settlement and wants to know what to do with it.

His children, aged six and nine, live in Kent with their mother, while he lives in the Midlands.

He is renting a four-bedroom property, so he has space when his children come to stay. He sublets one of the rooms in this house.

Mr Cope wants to get back on the property ladder, having sold the family home in the divorce. He wants to buy a three-bedroom house, to accommodate his children but thinks buying a four-bedroom place and continuing to rent out a room might make more financial sense in the long term – despite it costing more now.

However, he also wants to look at getting a base in Kent to make visiting his children easier and avoid having to stay in hotels those weekends.

He has also thought about buying a static caravan or a boat, to give himself a base there.

Mr Cope has £20,000 in credit card debt, incurred in the past few years, and additional modest cash savings.

His income, from a number of sources, totals £85,000 a year. He pays child maintenance each month and pays towards his company car, as well as £950 rent – but says he can save £1,000 each month.

Mr Cope also saves towards his company pension, with him and his employer combined putting in around 12pc of his salary.

As well as getting on the property ladder, Mr Cope wants to have spare money to travel.

“I kind of missed the boat in my youth and never really did any travelling, so I have got the desire to do more,” he said.

Mr Cope hopes to stop full-time work in the next 20 years and work for himself, giving him more flexibility to travel longer and work fewer hours.

He also wants to save for his children’s future.

“I want to save long term for things like university and to give them a reasonably good start with regards to property,” he said.


JAY WILLIAMS

James Cope, 34, wants to travel more and save for his children’s future

Tim Page, chartered financial planner at Page Russell

It’s the start of a new year and a new chapter in Mr Cope’s life, which is an ideal time to review his finances.

It won’t come as too much of a surprise that Mr Cope achieving all his goals on day one is not feasible. So the key decision is when to do each thing.

The default option would be to try to buy the house first and I think a budget of £280,000 with a deposit of £22,000 is reasonable now. This would satisfy Mr Cope’s urge to get back on the property ladder and fix his payments at a low interest rate for the next five years. But it probably means the extra bedroom is out of reach.

However, I think he should wait a bit before buying the house. The best solution is to spend up to £20,000 on a static caravan in Kent now. This gives Mr Cope and his kids some crucial stability and will save those crippling petrol or hotel bills.

This asset will depreciate in value, which I know Mr Cope wants to avoid, but I would view this as a cost saved rather than an asset bought.

I suggest Mr Cope’s next priority is to improve his credit score and prove he has room in his monthly budget to afford the repayments when he applies for a mortgage. As a result, Mr Cope should take the following actions:

Pay off his credit card and use the money saved each month from this and the hotel costs to save for a deposit. He will need to draw on his savings to do this.

After the past year, Mr Cope deserves the decent foreign holiday he has planned but I think he should put that on hold until he has bought the house and instead save for the deposit.

If it is possible to reduce the amount Mr Cope is paying into his company pension without losing employer contributions, it might be useful to do this – but only until he buys the house – and put the saved contributions towards the deposit.

I estimate it should then take about 18 months to save a £30,000 deposit.

By then, Mr Cope’s earnings and credit rating should have improved enough for him to purchase a house costing £300,000 or more and enable him to buy that extra bedroom.

If his plan to semi-retire at 55 is to work, Mr Cope will need to save into an Isa as well as a pension, so that he has funds to draw on before the pension is available at 58.

I would recommend Mr Cope leaves starting to save for his children’s future until a few months after he has bought his house and knows what the running costs really are. Based on his current earnings and expenses, this goal looks like a tough one to fulfil.

Tina Weeks, financial life planner with Serenity Financial Planning

Mr Cope is in a period of transition. It would be wise during this period to allow himself time to re-adjust and settle into his new life before making big changes.

Mr Cope’s main financial goal is to buy a property where he lives. He is renting and paying £950 a month. If he could buy a four-bedroom house for around £300,000 it would make sense, as it is certainly worth paying the £15,000-£20,000 extra for an additional room.

This additional cost would be recouped in around three years from rental income.

If Mr Cope uses his £25,000 divorce settlement and additional money from his cash, this would give him a 10pc deposit. He would need to use remaining savings for stamp duty and buying costs.

A 21-year mortgage for the rest at 2pc pa would cost him around £1,300 per month – considerably more than his rent.

In addition, buying at £300,000 would deplete all his cash reserves and it would be a while before Mr Cope could save to buy in Kent.

A better option might be to stay renting in the Midlands, where the rent is low, and instead buy in Kent.

If he could buy at a similar value (£300,000 or less) he would make substantial savings by not having to spend money on hotels or driving his children back to the Midlands every two or three weeks.

It would also give him and the children a nicer environment and better quality time.

The mortgage will probably have to be done on a buy-to-let basis and the required deposit may differ.

As he only needs the property once every two or three weeks, he could let the property on Airbnb the rest of the time or take on a corporate let during the week (subject to the lender’s approval).

As soon as he is able, he should then start to save again, initially to create an emergency cash buffer, and then into stocks and shares Isas.

It would be a good idea for him to put in place some life insurance for the benefit of his children.

A family income benefit policy providing £500 per month would only cost about £5 per month or £12 if he adds critical illness cover.

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