Spring 2023

mortgage services hspc

Mortgage & Protection news

The newsletter from HSPC Mortgage Services

As we move through Spring 2023, there have been positive developments to counter the sizeable increases in mortgage interest rates since the latter part of 2022.

Following the turmoil surrounding last September's mini-budget, a sense of calm has returned to the financial markets. Well, sort of, as there are now issues affecting international banks, such as Credit Suisse, which may impact the wider marketplace.

That said, this year's **Budget** highlighted the improvements since last Autumn. In its report, the Office for Budget Responsibility (OBR) set out that inflation - which peaked at 11.1% last October - should reduce to 2.9% by the end of 2023.

However, the most recent inflation figure had unexpectedly risen to 10.4%, resulting in the latest **Base Rate rise.**

(Source: Office for National Statistics, CPI, March 2023)

Mortgage market in 2023

There is some optimism though, as **mortgage deal rates have been dropping recently.**

This has been partly driven by the poorer economic climate, which means that total mortgage lending in 2023 is expected to be around 15% lower than in 2022.

(Source: UK Finance, December 2022)

This cooling of the housing market has triggered more enthusiasm amongst some lenders to fight for market share.

The average rate for a 2-year fixed deal sits at around 5.32%, and slightly less for a 5-year fix, at 5%. And, for those that tick all the boxes (which generally means borrowing 60% or less of the property's value), then the better rates had been coming in at under 4%, although 4%-4.5% is probably a fairer representation.

(Source: Moneyfacts, average rates comparison to March 2023)

This is a better situation than what was on offer at the back end of 2022, but it will still be a concern for those coming to the end of their fixed rate deals this year.

Your next step...

Irrespective of whether you're on a Fixed, Tracker or Standard Variable Rate (SVR),

Continued on page 2

MORTGAGE RATES - Falling or Rising?

There have been regular Base Rate rises, yet we've seen **improved Fixed Rate deals on Mortgage Rates.**

Currently, we're in a state of flux, as there are rate drops, and rate rises from lenders. As for how interest rates will move into the future may depend on the following:

- **The level of enthusiasm amongst lenders to continue to fight for your business,** via a price war, with some lenders accepting lower margins.
- **Longer term Swap Rates,** which have a bigger influence on Fixed Rate deals. Swap Rates have reduced since last Autumn, following the mini-Budget. *(Source: SONIA Swaps, March 2023)*
- **The impact of world events,** such as the war in Ukraine, and how that feeds through to the UK economy.

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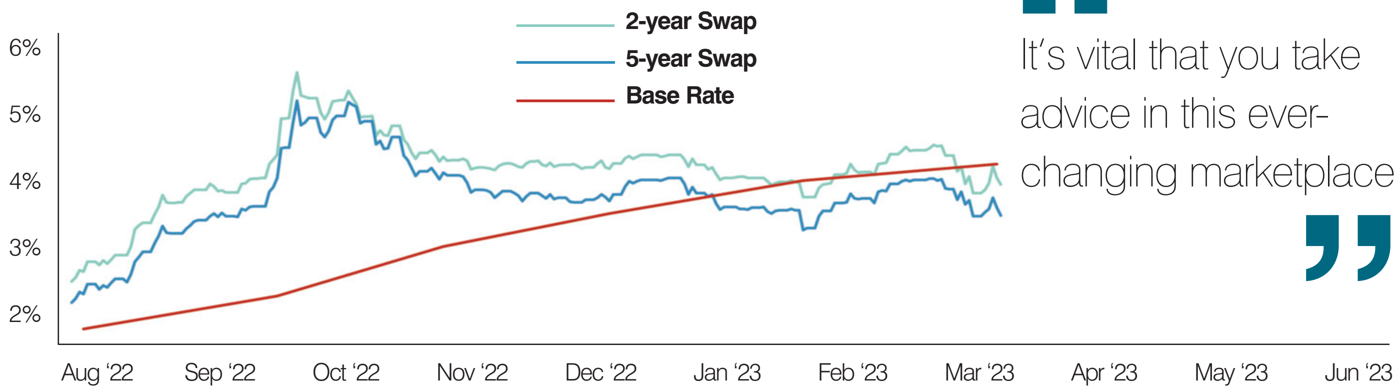
Welcome.... to this newsletter, which covers what we believe are some of the key issues of the moment that affect mortgage, protection and insurance products - and sets out how **we may help you.**



> "It's vital that you take advice in this ever-changing marketplace"

Differing movement of Swap Rates vs. Bank of England Base Rate

Swap Rates influence Fixed Rate mortgage deals. The 5-year Swap, for example, rose to 5.21% following the mini-Budget in September, and reduced to 3.25% at the start of February. Since then, it's fluctuated up to the 23 March Base Rate decision.

(Sources: Chatham Financial, Sterling Overnight Index Average (SONIA) Swap rates, to 24 March 2023; Bank of England Base Rate, to 23 March 2023)

Here to help... (contd)

Continued from page 1 ➔

do talk to us if you want to (or have to) **reconsider your mortgage borrowing needs.**

We'd help make sense of the multitude of options on offer. And you can take comfort from the fact that we operate in this sector day-in day-out (and currently many evenings), and have the expertise to deliver suitable advice. Plus, we can liaise with the various parties (estate agents, solicitors, surveyors, etc) to help make this process as smooth as possible for you.

That's why it's vital that you take advice in this ever-changing marketplace. In fact, the majority of you have done just that, as advisers accounted for around 84% of all mortgage distribution in 2022.

(Source: IMLA, December 2022 release)

Property prices

For the first time since June 2020, we've seen an annual decline in UK house prices of 1.1% in February 2023. The general view is that there will be further falls as we move through 2023.

What is clear though, for homeowners, is that the price rises over the last few years, may help to offset any fall. For example, in the **last two years alone, the average property price has risen by over £35,000 - a 15.4% increase in value.**

Also, prices over the long-term have been incredibly resilient, and in the last 30 years, for instance, we have seen the **average property price rise from around £50,000 in Q4 1992, to about £265,000 in Q4 2022.** That's more than a fivefold increase.

(Source: Nationwide, House Price Index, Feb. '23 & Q4 '22)

Base Rate

As said, high inflation (which sits at 10.4%) has been a contributory factor in the Bank of England Base Rate rises, which currently stands at 4.25%.

Although, as the chart shows, the Base Rate is not the only determinant that influences mortgage interest rates,* but it can have a knock-on effect.

*(Sources: Office for National Statistics, CPI, March 2023; Bank of England, Monetary Policy Committee, 23 March 2023 release). * Swap Rates influence Fixed Rate mortgages.*

Please get in touch, to find out more.

■ **YOU MAY HAVE TO PAY AN EARLY REPAYMENT CHARGE TO YOUR EXISTING LENDER IF YOU REMORTGAGE.**

■ **A MORTGAGE IS A LOAN SECURED AGAINST YOUR HOME. YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE OR ANY OTHER DEBT SECURED ON IT.**

UK BUDGET 2023

■ Annual GDP growth in 2023 will still decline, but only by 0.2%, rather than the previous estimate of 1.4%.

■ Real household disposable income - a measure of living standards - will decline by a cumulative 5.7% over the two financial years of 2022-23 & '23-24. This would be the largest 2-year fall since records began in 1956-57.

■ The Energy Price Guarantee will be extended for a further 3 months from April 2023.

■ Fuel duty has been frozen for another year.

■ On the pension saving front, the Lifetime Allowance will be abolished, and the Annual Allowance will rise from £40,000 to £60,000.

For full Budget details: www.gov.uk (and search for spring budget)

(Sources: gov.uk & OBR, March 2022)

Time to Remortgage

There are **1.8m borrowers** coming to the end of their fixed rate deal period this year. This equates to around one-fifth of all borrowers.
(Source: UK Finance, September 2022)

Breakdown of Mortgage Borrowing

There are currently 8.5m residential mortgage borrowers, set out as follows:

Fixed Rate deals = 81%
Tracker Rate deals = 8%
Standard Variable Rate = 9%
Other = 2%

(Source: UK Finance, 2022 figures, released March 2023)

Broadly, for those now looking to remortgage, there could be three main options to consider:

- Do nothing, and be placed on the lender's **Standard Variable Rate (SVR)** at the end of the deal period. This is generally not the best option, as the SVR is normally much higher than the deals on offer.
- Identify another **Fixed Rate deal** for 2, 3, 5, or more years.
- Consider moving onto a **Tracker Rate deal** (with no tie-ins). This generally tracks the Bank of England Base Rate at a set percentage above it.

With a Fixed Rate deal you will know where you stand on monthly payments; currently over 80% of borrowers are on this.

Alternatively, Tracker deals might be something to consider if you feel that the Base Rate and Fixed Rate deals may be lower into the future, at which point you could move to a Fixed Rate down the line.

Sub 1-2% deals are a thing of the past

Whatever you opt for, the remarkably low interest rate deals of recent years are no longer on offer, in this more normal interest rate marketplace. This means that most fixed rate borrowers are likely to face a financial shock when looking at the current options, when their deal comes to an end.

To give you an example, the average 2-year fixed rate would be jumping from the 2.57% on offer two years ago to about 5.32%.

If £100,000 had been borrowed, over a 30-year period, then the extra payments might be around £150 more a month. *(Source: Moneyfacts, March 2023)*

Stay, or leave your lender?

That said, there are numerous factors which may come into the mix to possibly help lessen the increase in costs.

For instance, you might require the same loan amount, which may now be a **smaller percentage figure against the increased value of your home.** This could open up the better rates for you, particularly if the previous deal was a high loan-to-value one.

It could also pay dividends to **consider the wider marketplace,** as your existing lender may no longer be the most suitable choice. Or, it may conversely deliver reassurance that you're best to stay where you are.

Additionally, by taking our professional advice, we'd **fully assess the suitability of the options on offer** - and not solely focus on the interest rate element.

Please get in touch to hear more.

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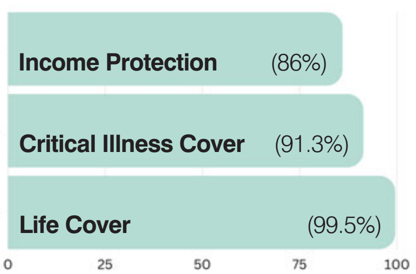
Surely, it's better to have **protection cover** and hopefully not need it, than to need it and not have it!

Protection insurance may feel like an unnecessary expense, but not to the beneficiaries of the £13m paid out each day for life cover, or the 46,000 that were able to claim in one year, when suffering a critical illness or being off work long-term due to an illness of injury.*



Percentage of Claims paid out
*(Source: *Association of British Insurers, 2021 Claims Statistics, released May 2022)*

Many of us are wise after the event, but consider this regarding those of normal working age:

- 109,448 UK adults, aged 18-65 died in 2020 - that equated to 1 every 5 minutes.
- Currently, almost 2.5 million people in the UK are off work long-term due to sickness.

(Source: Office for National Statistics, Mortality data for 2020; Labour market overview, February 2023)

Plan for the worst...

In these difficult times, it's fully understandable that your funds may have to be directed to meet other needs. But, it's also important to consider the financial needs of your family, should the worst occur. Or, to have access to some degree of income stream to help you get back on your feet, should the unexpected happen.

Moving on up...

With property prices experiencing the first fall in annual value since June 2020, this may present an additional benefit for the **First-Time Buyer.** *(Source: Nationwide, House Price Index, February 2023)*

» Those looking to buy their first home still face numerous challenges to make that first step into property owning.

That said, this step was taken by over **362,000 first-time buyers last year,** and accounted for more than half (52%) of all the home purchase loans that were taken out.

Move from renting

Renting is not always the worst-case scenario, as it works well for many, particularly if they want to have less ties, or perhaps would like to test out an area, or even a relationship! And there will be fewer hurdles to jump, compared to the strict borrowing criteria set out by the lenders.

For others though, renting is seen as 'dead money', as you're not building up, nor benefiting from investing money, time and effort in your own property. Additionally, the rental payments might even be higher than the expected mortgage costs.

Key facts

For this group, renting would be a stepping stone whilst they get their finances (and deposit) in order.

- In fact, the issues surrounding **the deposit - which was £62,470** on average, in 2022 - means that it's no surprise that the average age of a first-time buyer tends to be around 32.
- And, possibly partly driven by the need to put aside a sizeable deposit, **almost two-thirds (63%) now buy in joint names** (with two or more people named).
- Many, though, will benefit from access to the slightly better deals, as the **average deposit is about 21% of the property's value.**

(Source: Halifax, First-Time Buyer report, January 2023)

- Conversely, if only delivering a 5% deposit (£15,100, by comparison), the interest rate would be higher, and possibly more problematic to secure a loan in a falling house price market. However, it may help get you onto the ladder much sooner.

Talk to us

As for us, we can assist with your application, factor in any financial support from parents (or grandparents), consider any specific government help, identify areas to you might improve once we see your credit score, and then look for the most suitable deals.

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Are you Creditworthy?

A credit score is designed to try to predict your future behaviour. You can check your rating at one (or some) of the following:

- **Checkmyfile** - Tel: 0800 086 9360 *(this brings together most rating agency results)* - www.checkmyfile.com

- **Experian** - Tel: 0800 013 88 88 - www.experian.co.uk
- **Equifax** - Tel: 0800 014 2955 - www.equifax.co.uk
- **TransUnion** - Tel: 0330 024 7574 - www.transunion.co.uk

By talking to us, once you have your results, we'll have a better feel for items which have scored you down and where you might get a more favourable response for credit.

Supporting the 4.3m+ Self-Employed

More than three-quarters (77%) of Self-Employed workers, say that being self-employed makes it more difficult to be approved for a mortgage. *(Source: Pepper Money, Specialist Lending study, Winter 2022/23)*

If you're Self-Employed this can deliver many advantages in terms of the lifestyle you lead, the way you're remunerated, and the opportunity to grow your income stream, **but the ease of obtaining a mortgage isn't one of them!**

In short, the automated processes set up to assess the risk for both the lender and the borrower are largely formulated with the 'regular income-earning' employee in mind.

By contrast, a self-employed worker may have variable and seasonal income streams, plus utilise a range of remuneration methods such as - a regular (but possibly low) salary, dividend payouts, director loans, share of net profit, and so on.

Part of the problem is possibly the lack of resource, and enthusiasm from lenders to find a specific solution that works well for the self-employed.

In the midst of all this, it's also an understandable annoyance to the self-employed, that an employee is likely to have all their income eggs in one basket, but could lose that job the day after getting a mortgage!

Conversely, if a self-employed worker faced a financial downturn, it's quite possible that they would either have alternative plans in place, or immediately look to other options to help rebuild their revenue stream.

A sector comprised of over 4.3m workers

The fact that 1 in 8 of all workers are self-employed, means it's a sizeable marketplace, plus the **resourcefulness of this sector is also not lost on lenders.**

So, the tide may already be turning, with some lenders taking a more favourable view, and easing their criteria restrictions.

(Source: Office for National Statistics, Labour market overview, February 2023)

Variable income streams

One example of this is that a number of lenders appear to be more accepting than before of variable income streams, including elements such as bonuses, commission, or overtime.

Justifying variable income streams will also be an issue for the wider working community, as well as the self-employed. This is because many salaried employees could also secure a sizeable part of their income stream from bonuses, or have the opportunity to work overtime to help boost their income.

If any of the above applies to you, then it's vital that you turn to us for advice.

GET PROTECTED...

■ Financial concerns resulting from a loss of income caused by personal injury or illness is a worry for 46% of self-employed workers - up from 34%, before the pandemic hit.
(Source: The Exeter, Challenging Times survey, August 2022)

■ The self-employed worker is likely to be more exposed financially should they not be earning, so it makes sense to consider the three main protection offerings; life, income protection and critical illness.

■ With regard to Income Protection cover, many self-employed (and contract workers), mistakenly believe that they'll never qualify for this - which is designed to pay out a monthly income for a successful claim.

This is generally not the case and, in fact, this insurance is possibly even more important for this group, who are unlikely to have employee benefits, such as sick pay.

As with all insurance policies, terms, conditions and exclusions will apply.

Do you have adequate protection cover in place?

PROTECTION Spring Clean

» In the same way that you'll insure your home, car, pet, and mobile, make sure you apply the same principles to both yourself, and your immediate family.

As part of a Spring Clean of your existing (or potential) Protection needs, we can also assess what's on offer from your employer, as well as any limited support (if any) from the state.

Protection cover options

As part of this process, we'd highlight that there are numerous protection products out there to help provide cover should you suffer a life-threatening illness, or a mental health problem, and be off work for a long period of time.

This issue impacts a sizeable number of people when you consider that almost **2.5 million are currently off work due to long-term sickness.**

(Source: Office for National Statistics, Labour market overview, February 2023).

If you have **Children**

Family Income Benefit is an alternative (or additional) type of life cover to consider, if you have young children.

Whilst you may have normal life cover in place to help pay off the mortgage, what about the everyday items such as food, clothing, utility bills, fuel and other expenses such as a new car, or holiday?

This where Family Income Benefit could help, as this, generally lower-costing product, is designed to pay out until the children have grown up. This means it's normally taken out over a limited time period of, say, a 10-20 year term.

If you claimed in the first year, then it would provide a monthly payment until the end of the policy period. Alternatively, if you claimed with two years left, then it would simply pay out for the last two years, or not at all, if there was, fortunately, no claim made.

The likelihood of these events occurring will be more likely in the working lifetime, than an early death, so it's important to consider some degree of cover. One option might be a stand-alone **Income Protection** policy, or perhaps consider **Critical Illness Cover** as an add-on to **Life Cover.**

These policies are important, as they will deliver a degree of funding (if your claim is successful), giving you valuable breathing space whilst you focus your energies on recovery, ahead of returning to work.

Life Cover

Conversely, if you die, **you get no second chance** to rebuild your finances for the family, so it's essential that you also consider having an element of this cover in place.

The likelihood of death up to the middle part of your working lifetime is less likely, but it's still a possibility when you consider that, on average, around **50 people day die every day, who are aged 18-44.**

(Source: Office for National Statistics, Mortality data for 2020, released January 2022)

Trusts

Once you set up life cover, it will be beneficial in most cases to place it in Trust. This should help to ensure that at a bad time for the family, the beneficiaries will see a swift payout.

As with all insurance policies, terms, conditions and exclusions will apply.

■ **We cover mortgages, insurance and protection products along with a number of other financial areas, so do contact us if you'd like to discuss your financial needs: Tel: 01463 231232 Email: nfell@hspcmortgages.co.uk**