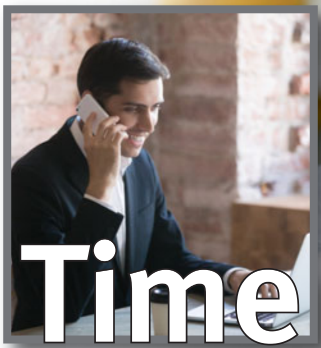
Winter 2021/22

Mortgage & Protection news

The newsletter from HSPC Mortgage Services

mortgage services hspc



Time to Act?

Despite everything that's occurring at the moment, there are still decent mortgage deals on offer...

However, the direction of travel for mortgage interest rates is largely upwards, and further impacted by the Bank of England increasing its Base Rate to 0.25%. This was applied even though it expects the economy to slow anyway, due to the spread of the Omicron variant of Covid.

A major influence was annual inflation at 5.1% in November (and expected to peak at around 6% in April 2022). The Bank of England's inflation target stands at 2%, meaning there may be further increases. *(Sources: Office for National Statistics, Consumer Price Inflation; and Bank of England, December 2021 releases)*

Even though the direction of travel is upwards, these **rises are coming from a record low base** (in terms of both mortgage rates and the Bank of England Base Rate), which means that there are still **excellent deals** out there. But, for how long?

So, for a range of borrowers, perhaps **now is the time to act** to lock-in the current low rates:

- those looking to secure their first loan deal.
- those who have a mortgage deal that's due for review in the next 6 months or so.
- existing borrowers who simply want to obtain a decent interest rate now and/or raise more funds.

Planning how we live...

A further consideration, and a by-product of the pandemic, is that many of us have given thought to the future set up of our home and the way we live.

This could encompass both where we live (with some leaving the cities), and the amount of space we need.

House Price growth

Possibly surprising for some, in this period of economic uncertainty, the average UK house price has actually risen 10% annually. *(Source: Nationwide, House Price Index, November 2021)*

This has partly been driven by prior government tax incentives, and buyer demand for a different type of home.

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

Remortgaging

If you're moving towards the end of your deal period, then you ought to be considering what's on offer from your existing, or alternative lender(s).

To do nothing would mean you revert to your lender's Standard Variable Rate, which may be in the realms of 4.4%.

The following are comparative average fixed rates across the board (to give you a general feel). For those that tick all the boxes, rates are on offer from around 1% for largely 60% LTV.

■ Coming off a 2-year fixed deal
- Average rate Dec. 2019 = 2.44%
- Average rate 15 Dec. 2021 = 2.38%

■ Coming off a 5-year fixed deal
- Average rate Dec. 2016 = 2.96%
- Average rate 15 Dec. 2021 = 2.67%

(Source: Moneyfacts, 15 December 2021)

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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.**

■ HSPC Mortgage Services is an appointed representative of TenetLime Ltd, which is authorised and regulated by the Financial Conduct Authority.

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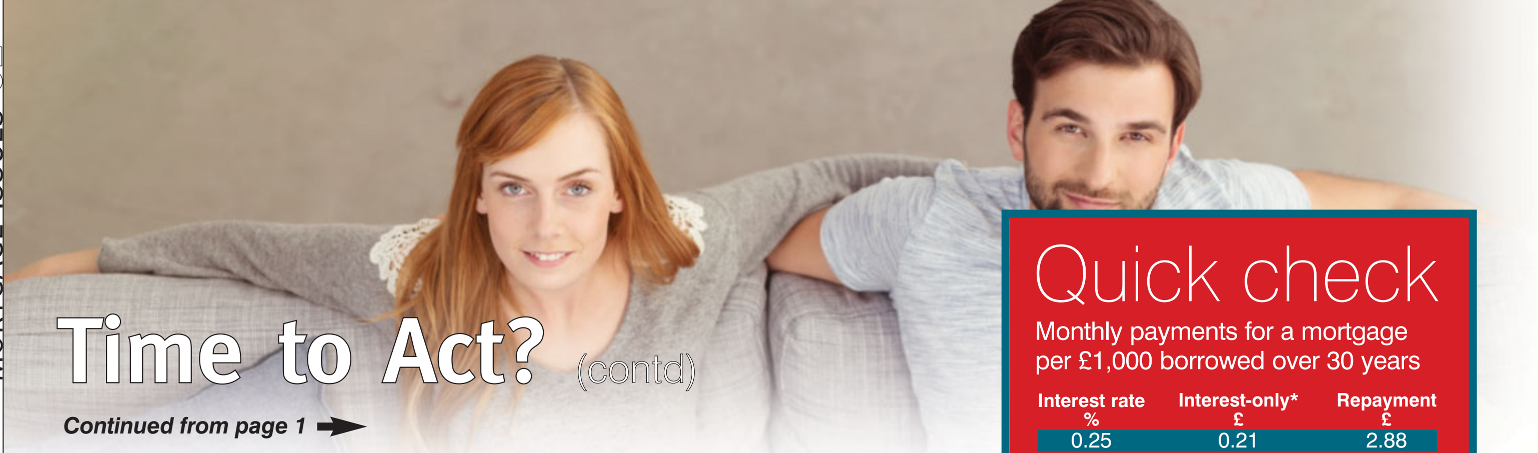

Time to Act? (contd)

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Decent deals on offer

Even in light of the current inflationary pressures, there are still a number of deals in the realms of 1%, and just over. These are primarily (but not exclusively) for those that need to borrow 60% or less Loan-to-Value (LTV) of the home's value. However, even those needing 90% or 95% LTV could still be looking at the better deal rates of around the 2-3% mark. *(Source: Moneyfacts, 15 December 2021)*

These deals may be particularly enticing, but it's not just the headline rate that needs to be considered, it's the associated fees, and lender requirements. That's why it makes sense to **take professional advice** to identify the most suitable route for you.

The help we can offer...

For our part, **we know where to look,** as we are doing this every day for our clients.

Additionally, to help that process, and for you to be able to move swiftly, it makes sense to have all of your financial details to hand, such as bank statements and payslips.

This is because lenders continue to apply stringent controls on the 'evidencing of income' and 'affordability' (albeit the Bank of England is looking to consult on possibly withdrawing the latter, sometime in 2022).

Find out your Credit Score

This is also really useful information to have, as it would provide us with further background knowledge. A popular site you could use is **checkmyfile.com**, as that brings together findings from all the rating agencies.

Please get in touch to hear more...

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Quick check

Monthly payments for a mortgage per £1,000 borrowed over 30 years

Interest rate %	Interest-only* £	Repayment £
0.25	0.21	2.88
0.50	0.42	2.99
1.00	0.83	3.22
1.50	1.25	3.45
2.00	1.67	3.70
2.50	2.08	3.95
3.00	2.50	4.22
3.50	2.92	4.49
4.00	3.33	4.77
4.50	3.75	5.07
5.00	4.17	5.37

Here's how to use the mortgage payments calculator: A £100,000 mortgage over 30 years, charged at a 2% interest rate would cost 100 x £3.70 (for Repayment) = £370 per month.

* Excludes any payments to a separate savings scheme, to help pay off the capital amount borrowed.

This calculator only provides a guide to monthly payments and does not guarantee eligibility for a mortgage. The actual amounts that you may have to pay may be more or less than the figures shown. Please contact us for a personalised illustration.

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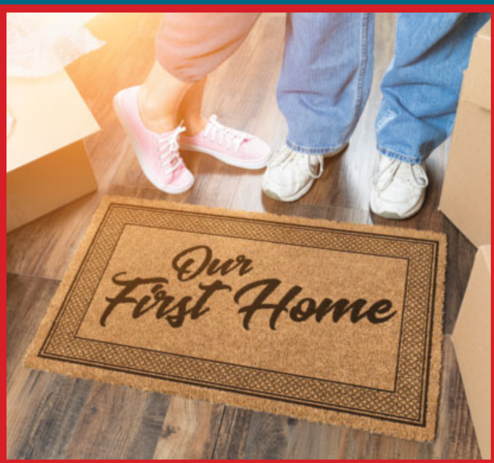

First-Time Buyers

It's a contradiction for many aspiring First-Time Buyers that what they'd pay in mortgage repayments is often less than their monthly rent, yet it remains difficult to get onto the property ladder.

It's not as if the desire to own a property is not there. In fact, 49% of 18-34 year-olds surveyed said that homeownership is now more important to them as a result of the pandemic.*

*(Source: *Santander, Life after lockdown, June '21)*

Raising the Deposit

52% of this age group also set out that the deposit was their biggest hurdle.*

However, Government intervention with the **Mortgage Guarantee Scheme** has helped bring about more products (across the board) that only require a 5% deposit. Others may be able to benefit from the Bank of Mum & Dad (plus Grandparents) to help deliver the deposit.

Rising House Prices

The demand for more space afforded by larger properties has helped drive up prices. So, you may find that if you're after a smaller home, it might be more achievable than you first thought to get a foothold on the property ladder.

Type of Mortgage you opt for

Another way of reducing the monthly mortgage payments is to take out a mortgage over a longer term, such as **paying back over 35 years.** Although, this means that you will be paying more money back, if extending the payback period.

However, over your lifetime of property ownership, you're not committed to stay with the same deal - with homeowners often having a number of different mortgage deals across the years.

The process can be confusing and that's why around nine out of ten First-Time Buyers are likely to use an Adviser.

(Source: Accord Mortgages, July 2021)

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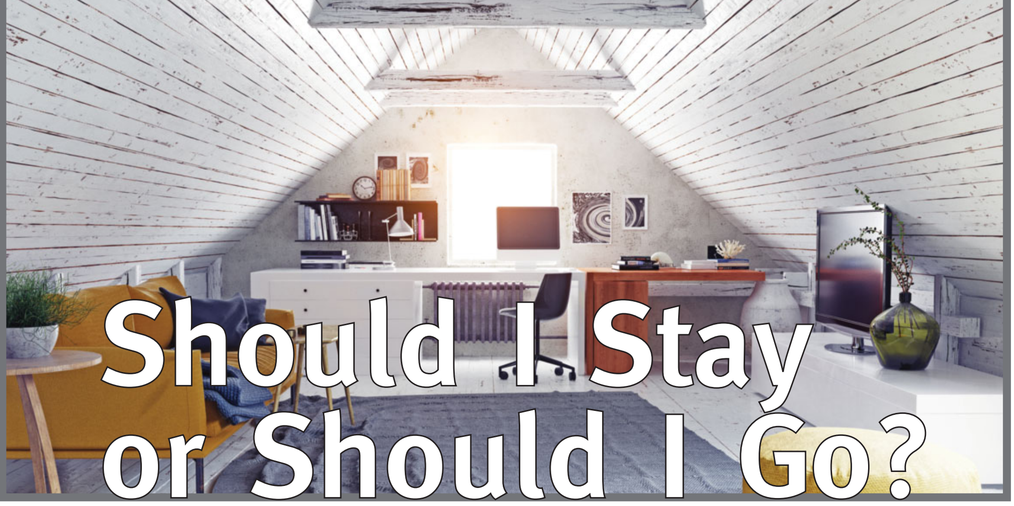

Should I Stay or Should I Go?

The last 18 months or so may have made you realise that you need more space for both you and your family, with some preferring to stay put, rather than move.

» The upside of this is that your current property may have increased in value compared to when you took out your existing mortgage deal. If that's the case, then it may be easier for you to borrow extra money (if needed) to help create the space you want.

Property price rise

For example, if you're coming to the end of a 5-year mortgage deal, the average house price in November 2016 was about £205,000, by November 2021, it's around £253,000.

(Source: Nationwide, House Price Index, November 2021)

If you borrowed 70% LTV in 2016, then by 2021, you'll be under the 60% LTV threshold, which opens up the better deals. Or, you can take a view that you are able to meet the borrowing criteria, and are comfortable with a 70% LTV deal - thereby releasing around £30k+ of extra funds.

Of course, taking on extra borrowing may not be the most suitable route for you. Additionally, if you remortgage before the end of the deal period there may be financial penalties.

So, you have to weigh up all of this, along with the alternative costs attributable to moving home to secure the space you need.

Build up or build out?

This would be the most obvious way to secure the extra living space you need. And whilst it's likely that there are planning and building regulations to consider, the planning aspect can be less onerous these days if you remain within an accepted footprint, and keep your neighbours onside.

Extension

This could create an extra room for an office, or simply be an extension to the kitchen area to help create more space.

Rough costs: according to mybuilder.com, a standard 6m x 4m extension could cost in the region of £26-34,000.

Loft conversion

This can create a master bedroom with en suite, be used as an office, or simply deliver an extra room(s) to ensure everyone isn't always on top of each other!

Rough costs: according to mybuilder.com, this costs on average £40,000.

Wide-ranging renovations

Alternatively, you may want to do more, such as extend and update your kitchen, rewire, new heating system, new windows, and so on, to ensure the home layout works as best as possible for you.

Rough costs: according to Checkatrade, against a 3-bed property, this might cost in the realms of £38-74,000.

Does it add value?

Generally, it should. With an extension, or loft conversion, you are delivering more space, which should, understandably, make your home more marketable.

(Sources: mybuilder.com website & Checkatrade website, both September 2021)

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Protection Insurance

Rather than hunkering down following Covid claims, the Protection industry has responded positively and continues to pay out most claims, and deliver innovative products for today's lifestyles...

With the ongoing impact of the pandemic, it's important to consider ways of insuring yourself against early death, or the inability to earn an income due to a serious illness, mental health issue or injury.

In fact, according to Royal London, 15.9m people now feel more financially vulnerable than they did back in March 2020. *(Source: Royal London, August 2021)*

The warning that *'your property may be repossessed if you do not keep up repayments on your mortgage'* possibly resonates with them. Those renting also need to ensure they can stay in their home.

So, don't just view **Protection Insurance** as a small issue to consider when taking out a mortgage deal. Instead, get in touch with us to see if what you have currently works well for you, or if there are areas where you feel exposed.

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

98% of all claims were paid out in 2020

Life Cover

- 99.5% of all claims were paid out.
- Average payout of £79,304 (term), £4,026 (whole of life).

Critical Illness

- 91.3% of all claims were paid out.
- Average payout of £67,011.

Income Protection

- 86.5% of all claims were paid out.
- Average payout of £22,170.
- Average length of claim could be around 6 years.*

*(Sources: Association of British Insurers, 2020 data, May 2021 release; *2020 claims data from LV and Aviva)*

Make it Work for Yourself

The **Self-Employed** may feel hard done by in recent times. Some would have missed out on Government financial support, and mortgage lenders have been applying stricter lending criteria. So, it's no wonder that many feel they'll never own a home, or will face issues when seeking a new mortgage deal.

» At the outset of the pandemic, much of this was true regarding the ability to secure a mortgage. More recently, 47% of **self-employed workers** still feel deterred from even applying for a mortgage because of their self-employed status.

(Source: The Mortgage Lender, August 2021)

But, let's not forget that the self-employed sector comprises around 4.3m workers. Whilst that's down on the 5m at the start of the pandemic, it's still a sizeable part of the total workforce (around 13%). Of those remaining, many would have been nimble enough to adapt their offering in light of the economic climate.

(Source: Office for National Statistics, Labour market overview, September 2021 release)

Also, the **resourcefulness and size of this marketplace is not lost on lenders,** who seem to be easing some of their criteria restrictions. For example, some lenders appear to be more accepting of variable income streams such as bonuses, commission, or overtime, than before.

Plus, there's the revamp of IR35, which may impact upon affordability issues for some. If you find yourself in this situation, then it would be prudent to also have a chat with your accountant.

LIMITED GOVERNMENT SUPPORT

- The majority of self-employed people (57%) said they had no government support in the last 12 months.
- Of those that did receive support, 28% received a grant, with less taking up the various loans on offer.
- A small percentage (9%) had used the furlough scheme for their staff.

(Source: The Mortgage Lender, September 2021)

Rates on offer

For those that can meet the affordability criteria required by lenders, they may benefit from the current competitive pricing. There are headline-grabbing 'circa 1%' deals, largely for the 60% Loan-to-Value (LTV) borrowers. But the competition amongst lenders has meant that even at the low deposit deals for 90% and 95% LTVs, it's still showing low average rates for 2-year fixed rate deals of 2.55% and 3.06%, respectively. With slightly higher rates for the 5-year deals. *(Source: Moneyfacts, 15 December 2021)*

Insuring your income stream

In addition to having **Life Cover** insurance to help pay off the mortgage, and to support your family, you should protect your income stream too, if you were unable to work through an injury or serious illness. This could come in the form of a **Critical Illness** policy (as a stand-alone plan, or an add-on to life cover), and would pay out a tax-free lump sum on a successful claim.

Alternatively, there are **Income Protection** plans, which are designed to pay out a monthly income for a successful claim.

Yet, many self-employed and contract workers mistakenly believe that they'll never qualify for this insurance protection. That is generally not the case and, in fact, this insurance is possibly even more important for the self-employed, who are unlikely to have employee benefits, such as sick pay.

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

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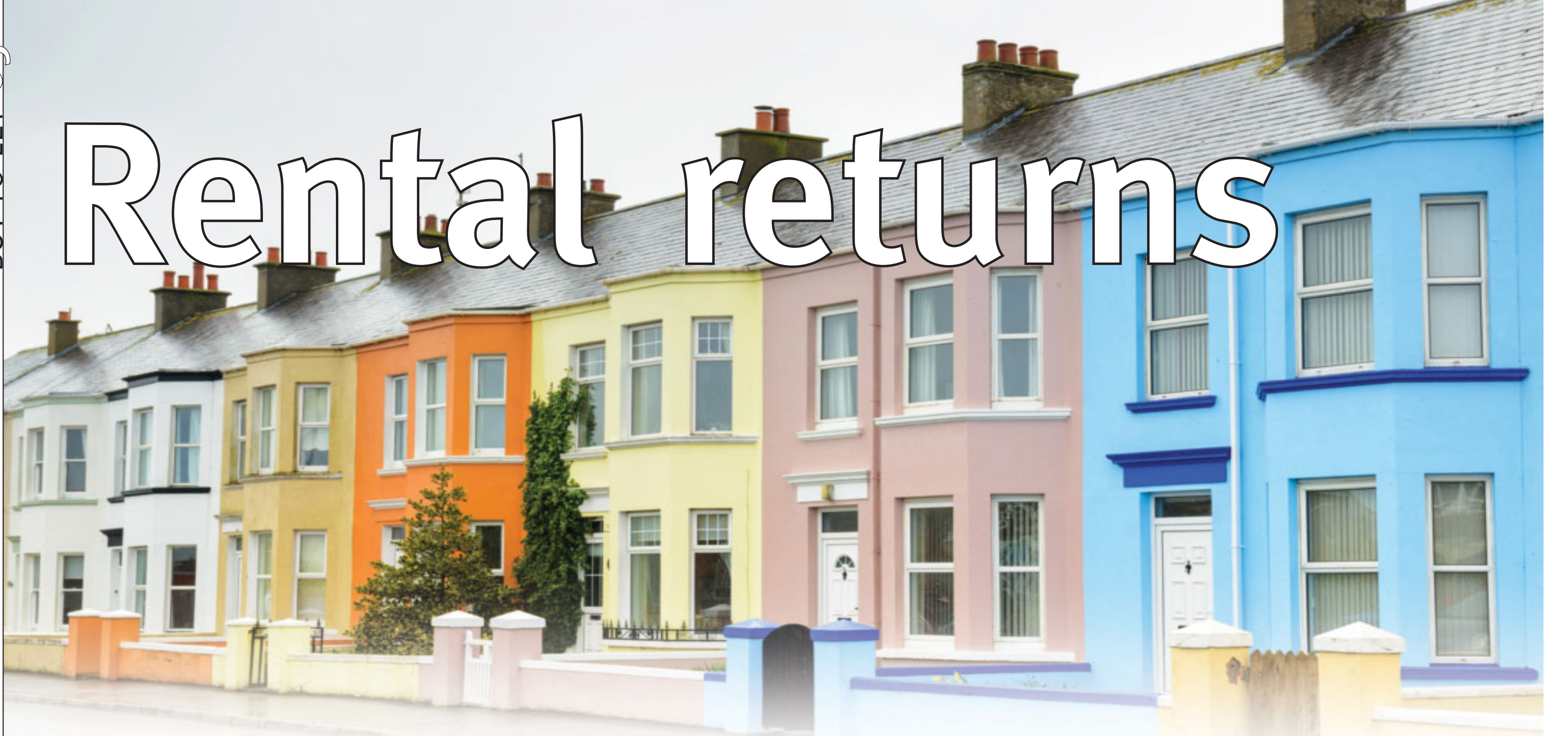
Rental returns



Despite the difficult economic environment, many of the fundamentals for a positive Rental sector for **Landlords** still remain, when you consider the following three statements...

- ***Enough new homes are being built:*** there aren't.
- ***A deposit for first-time buyers is easy to secure:*** it isn't.
- ***Mortgage interest rates are sky high:*** they aren't.

Were those factors true, then the Private Rental Sector would be less appealing to Landlords. As it happens, demand remains high, and if Landlords want to remortgage, then property price increases over recent years (combined with low interest rates) are working in their favour.

A downside

Of course, it's not all plain sailing, as Landlords still face sizeable regulatory and tax issues to navigate, and many will have suffered from the recent support afforded to defaulting renters.

Renter demand

As said, demand remains high, but the hotspots have changed throughout the UK compared to pre-pandemic times. Some renters (as with house purchasers) have moved away from the cities.

Overall, the UK average monthly rent figure is at £1,059, up 8.7% on the year prior. Regionally, the biggest annual growth has occurred in Wales (12.9%), Northern Ireland (11.6%), Greater London (9.7%) and the North West (8.9%).

(Source: Homelet Rental Index, October 2021 data, released November 2021)

House Price growth

Over recent years, many Landlords will have benefited from house price rises. If this is the case, then it should deliver more options for those nearing, or coming off 2- and 5-year mortgage deals.

For example, in November 2016 the average residential house price was £204,947, five years on, it's £252,687 - a jump of over 23%.

(Source: Nationwide, House Price Index, November 2021)

In some cases, that may mean access to lower LTV rates, which should open up the better deals.

And, for others, it will present opportunities to raise further funds to renovate the existing property, or help to access money to purchase additional properties.

Buy-to-Let interest rates

This information may be relevant should Landlords be nearing the end of their deal period, or are simply looking to remortgage.

The **comparative 'average' rates across all LTVs** are still lower than the 5-year ones that could be coming to an end, despite the recent upward trend in rates. And, if the Landlord falls into the lower LTV arena, then they could have access to even better deals:

December 2016 = 3.74% (historical 5-year deal rate)
December 2019 = 2.80% (historical 2-year deal rate)
15 December 2021 = 2.93% (2-year deal) / 3.20% (5-year deal)

(Source: Moneyfacts, Buy-to-Let Average Fixed Rate deals, 15 December 2021)

Do talk to us to hear more.

There is no guarantee that it will be possible to arrange continuous letting of the property, nor that the rental income will be sufficient to meet the costs of the mortgage.

The value of your Buy-to-Let property and income from it can go down as well as up. You may also require advice on the legal and tax issues.

The Financial Conduct Authority does not regulate legal and taxation advice, and most Buy-to-Let mortgages.

HM Revenue & Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

You may have to pay an early repayment charge to your existing lender if you remortgage.

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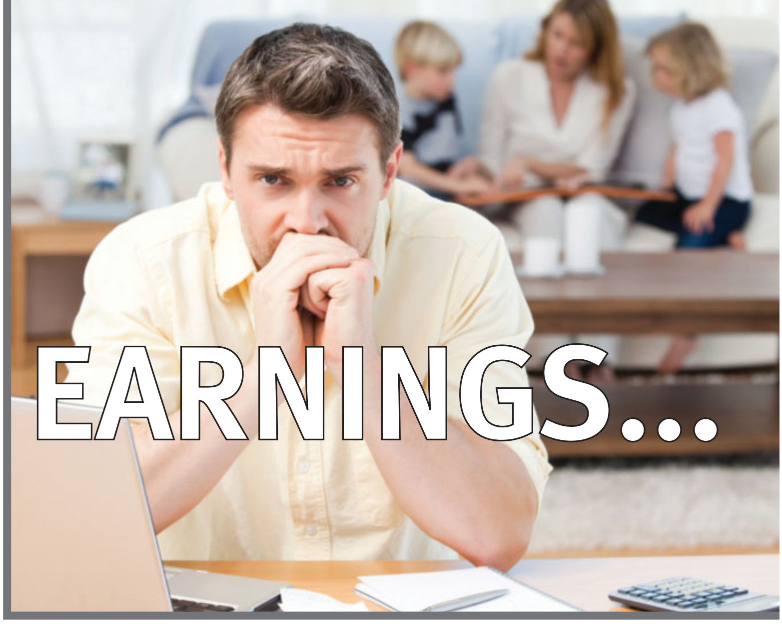
The continuing impact of the pandemic has reinforced the importance of protecting your income stream through insurance cover such as an **Income Protection** policy.

Protect your EARNINGS...



Across a working lifetime, consider this: the average annual income of about £30,000 (discounting inflation), could equate to about **£1,400,000.** This amount is almost six times the current average value of a UK home - circa **£252,000.**

Yet many will willingly insure their home, plus sensibly take out life cover to help pay off the outstanding mortgage (as a minimum), but far fewer apply the same principles to their own income stream.

(Sources: Office for National Statistics, Labour market overview, September 2021 release; Nationwide, House Price Index, November 2021)

Are we Invincible?

Most of us will feel that being off work long-term, and unable to earn an income is unlikely. But it has happened to 2.15 million people in the UK, who are currently off work due to long-term sickness.

(Source: Office for National Statistics, Labour market overview, September 2021 release)

Probability calculator

To get a feel for your own particular circumstances, why not use this probability calculator which sets out the 'broad' chances of you being off work for a period of time, along with suffering a critical illness, or dying. Simply enter your age, gender and smoker/non-smoker information into - **www.riskreality.co.uk.** Of course, it's only topline data, and personal circumstances will differ.

It shows, for example, that there's a **33% chance** for a 35 year-old, non-smoking, male to be off work for 2 months or more from now up to a retirement age of 68. For a female, the comparable figure is **41%.** If viewed as a couple, then the risk of it occurring to just one of them rises to **60%!** And, once you factor in that they are also smokers, the comparable figures are 41%, 51% and 71%, respectively. Whilst these results are merely a guide, it shows that bad things can happen.

If it happens to you...

The upside (unless you're a contractor or self-employed) is that you may, initially, benefit from ongoing financial support from your employer, if you were off work due to an illness, or injury. However, it's only likely to be there for a defined period. Plus, there's limited state support to try to access.

In which case you need to look at how you might cover any income shortfall, and this is where you could plan ahead and have an **Income Protection policy** in place.

If you benefit from employer support, then you could defer payouts from the Income Protection policy for that period of time, and face lower premiums as a result.

Income Protection will generally cover up to around 60-65% of your gross income, and dependent on the type of product you opt for, it could be a tax-free monthly payout until you're well enough to return to work, retired or have died, whichever occurs first. And, if you're still working and paying premiums, you can claim against it more than once.

Alternatively, if a lower monthly premium is better for your pocket, then you could opt for a scheme that only pays out for a specific period of time, generally one to two years (although it can be up to five, in some instances).

Funding your insurance cover

You may be surprised that by simply cutting back on some of life's small luxuries (odd takeaway, cab ride, cafe coffee, magazine, etc), you can swiftly set aside the premiums for an insurance plan that protects your income stream.

Even better if you are one of the **two in five** Brits that have actually saved money across the pandemic period - a combined **£5.8bn per month** in 2021.* Part of these savings could be sensibly directed to paying the premium for an Income Protection plan.

*(Source: *LifeSearch, Health, Wealth & Happiness, Q2 2021)*

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

■ THE PLAN WILL HAVE NO CASH IN VALUE AT ANY TIME AND WILL CEASE AT THE END OF THE TERM. IF PREMIUMS ARE NOT MAINTAINED, THEN COVER WILL LAPSE.

■ 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