

Mortgage & Protection news

The newsletter from HD Consultants

Whilst there have been positive developments recently, we have seen a sizeable increase in mortgage interest rates since the latter part of 2022.

» A key catalyst for rate rises was last September's mini-budget, which was badly received by the financial markets.

The subsequent **Autumn Statement** in November delivered some sense of calm, by focusing on balancing the books, through higher taxes, and lower government spending.

This though, will unfortunately exacerbate the financial pain for many who are already suffering from the cost of living crisis.

Mortgage Rate movements

As for mortgage interest rates, these are much higher when compared to one or two years ago, or even against what was available back in the Summer.

However, unlike the Autumn period when lenders were pulling products on a daily basis, a degree of calm has now returned.

In fact, there may even be some cause for optimism, as rates have been dropping recently, in spite of the Base Rate rises.

That said, the current deals will be a concern for many, including those coming off much cheaper fixed rates this year.

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



Here to help...

Market outlook

Due to the poor economic climate, total mortgage lending in 2023 is expected to be lower than 2022. This cooling of the housing market may trigger more enthusiasm amongst some lenders to fight for market share, which could deliver lower rates.

Of course, economic and geopolitical events may still have an influence on rate movements.

So, whilst no-one fully knows how it will develop for both Fixed Rate and Tracker deals, **our skillset can be utilised to your advantage.** We operate in this sector day-in day-out (and currently many evenings), and have the expertise to deliver suitable advice and help guide you through this process.

Perhaps now is the time to **reassess your mortgage borrowing needs?**

Of course, those currently on fixed rate deals will remain, if wanted, at the agreed interest rate until the end of their deal period.

Continued on page 2 ➔

2023 Property Price predictions...

As you'll see from the industry commentators below, the general view is that property prices will fall across 2023.

Nationwide: 5% fall in property value.

Halifax: 8% fall.

Rightmove: 2% fall.

Zoopla: 5% fall.

Centre for Economics and Business Research (Cebr): 4.5% fall.

Office for Budget Responsibility: 9% fall (up to Q3 2024).

That said, the property marketplace has shown in the past that it's quite capable of defying all expectations. And also, different regions, and different property types will deviate from the overall UK house price figures.

Much, of course, will depend on the developing economic climate, and any support on offer from the government.

(Sources: All late 2022 press releases)

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■ **Your property may be repossessed if you do not keep up repayments on your mortgage.**

Who should be talking to us?



- Those looking to purchase their first home.
- Those who have a mortgage deal that's due to end in the next 6 months or so.
- Those borrowers who simply want to obtain a new deal at the current interest rates and/or raise more funds.
- Those who need more living space, either within their current home, or are looking to move.
- Those who may be worried that further cost of living rises (and possible property price falls) could markedly impact on their mortgage affordability calculations into the future.

Rate 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
5.50	4.58	5.68
6.00	5.00	6.00
6.50	5.42	6.32
7.00	5.83	6.65
7.50	6.25	6.99
8.00	6.67	7.34
8.50	7.08	7.69
9.00	7.50	8.05
9.50	7.92	8.41
10.00	8.33	8.78

Here's how to use the mortgage payments calculator: A £100,000 mortgage over 30 years, charged at a 5% interest rate would cost 100 x £5.37 (for Repayment) = £537 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.



Here to help... (contd)

Continued from page 1 ➔

House prices

In the midst of all this, UK house prices continued to rise, by 2.8% per annum, on average, in December 2022. But the general view (as set out on page 1) is that price rises will ease further over time, with falls in 2023. That said, house price growth has defied logic in the past, and may do so again!

What is clear though, for homeowners, is that there have been price rises over the last few years, and that may well offset any fall. For example, in the **last two years alone, the average house price has increased by over £35,000 - a 15.4% rise in value.**

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

Stamp Duty decrease

On another positive note, since last September, those looking to purchase a home (in England & N. Ireland) will benefit from reduced stamp duty - up until 31 March 2025. (Source: www.gov.uk/stamp-duty-land-tax)

Major issues remain:

- Lender requirements

As has been the case for a good few years, borrowers will be well aware that lenders continue to apply stringent controls on both the 'evidencing of income' and if the borrower meets the 'affordability' criteria. That's why it's vital that you take advice.

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)

- High Inflation

We remain in the midst of a cost of living crisis, where inflationary growth (albeit moderating recently) still sits at around 10.5%, and this will continue to have an impact on interest rates.

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

- Base Rate rises

High inflation has been a contributory factor in the Bank of England Base Rate rises, which currently stands at 3.5%. Whilst it's not the only determinant that influences mortgage interest rates,* it can have a knock-on effect. And, at the Base Rate meeting in December, the Bank of England also hinted at further rate rises. (Source: Bank of England, Monetary Policy Committee, 15 December 2022 release)

* Swap Rates influence fixed rate mortgages, and this is the rate a mortgage lender must pay in order to mitigate the interest rate risk in a fixed rate mortgage.

With so much to consider, it can all be quite confusing, and that's why you should talk to us.

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

■ Your property may be repossessed if you do not keep up repayments on your mortgage.



Do policies PAY OUT?

Yes, they do, with 98% of all claims being paid out in 2021.

Life Cover

- 99.5% of all claims were paid out.
- Average payout of £80,485 (term), £4,125 (whole of life).

Critical Illness

- 91.3% of all claims were paid out.
- Average payout of £67,951.

Income Protection

- 86% of all claims were paid out.
- Average payout of £23,380.
- Average length of claim could be around 6 years.*

*(Sources: Association of British Insurers, 2021 data, May 2022 release; *2021 claims data from LV and Aviva)*

With the current Cost of Living crisis, your existing income stream may already be stretched to cover mortgage costs, ongoing living expenses, holidays, etc. So, imagine the impact if an income earner was then **unable to work** (and earn) for a long period, or **worse still, died**.

» At its most basic level, it's vital to have a suitable amount of **life cover** in place, to help pay-off the mortgage, should the unthinkable occur.

However, what is more likely to happen during your working life, is that you suffer a serious illness, or injury, and are unable to swiftly return to work, if at all.

There are products on offer to deliver a lump sum payout if suffering a 'specified' serious illness (**critical illness cover**), or

deliver a regular income (until you return to work, or retire), in the event of a specified illness or injury (**income protection**).

What if you already have cover in place?

If you are looking for savings across your household expenditure, an insurance policy that you feel may never be claimed against, might seem one way to cut costs.

However, do talk to us first before tak-

ing any action, as it may prove to be a false economy, plus there might be alternatives that enable you to still have a degree of protection cover.

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

Coming to the end of your mortgage deal rate period?

In 2023, around 1.8m borrowers will see their fixed rate mortgage deals come to an end. If they don't act, they could end up on their lender's Standard Variable Rate. *(Source: UK Finance, September 2022)*



Many of those borrowers are likely to face a financial shock, with the average 2-year fixed rate increasing (at the time of writing) by around a 3.25% interest rate against two years ago. If they were borrowing £100,000 at the average fixed rate, over 30 years, then the extra payments might be about £200 more a month. *(Source: Moneyfacts, January 2023)*

Cost of Living

Couple this with the rise in energy costs, and other expenses, and they have a double whammy of finding more money to pay both the mortgage and bills, than was the case a few years back.

Do we have a solution?

There's no escaping rising costs, but we can help in a number of ways:

- Ideally, don't revert to your lender's, generally, more expensive Standard Variable Rate.

- In the current climate, a Tracker Rate deal (with no penalties) could be an additional option to consider.

- Don't wait until your deal rate ends. Talk to us 6 months ahead of that date.

- And we can hold your hand throughout this process.

- Helping to assess the options between staying with a new deal with your current lender, or one elsewhere.

- assist with all the paperwork.

- liaise with all interested parties: lender, solicitor, surveyor, estate agent, etc.

Please let us identify the most suitable way forward for your needs.

■ Your property may be repossessed if you do not keep up repayments on your mortgage.

Making the Right Decisions...

Landlords, as ever, need to be a pretty resilient group, with all the regulations, tax changes and market conditions thrown at this sector over the years, and now we have rising mortgage interest rates, plus reducing thresholds for Capital Gains Tax.

» On top of these developments, there are more changes coming down the track, such as the Energy Performance Certificate reforms (see box item below). However, a recent positive is that landlords will also benefit from the reduction in the Stamp Duty charges, albeit the 3% surcharge still remains.

Wanting to remortgage

As a consequence of the regulatory issues applied back in 2017, a sizeable number of landlords took out 5-year fixed rate deals to avoid some of the stress-testing requirements back then.

For those that are yet to remortgage, it's vital that you have a conversation with us. The current turbulent market environment means that some lenders are further tightening their stress-testing for mortgage loans.

The stress test rate is applied to check the ability of the borrower to pay at a rate above the deal rate on offer - and the percentage rate stress test rate seems to be rising. In addition to this, we still have the affordability criteria, where lender's will be looking for a buffer in rental income to the tune of around 125-145 per cent. This is there to help cover non-payment of rent, void periods, repairs, etc.

Demand remains

For those renters who want to become homeowners, there's still a lack of suitable housing stock, and problems with building up a

deposit. Plus, the current climate may delay some from wanting to get onto the property ladder at this time, and continue to rent.

Limited Company status

This is proving to be a popular direction, but won't be the most suitable option for all, so do speak to your accountant and solicitor regarding tax issues, and property structures (such as any leasehold issues you may face). And we're there to give an overview, and to assist with sourcing suitable deals.

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.

Energy Performance Certificate (EPC)

Over three-quarters of landlords are willing to spend up to £3,000 to upgrade each of their properties to an EPC rating C, in order to meet the new regulations.

However, according to Paragon Bank, the average cost for these improvements may well be over £10,000 - covering elements such as replacement windows and loft insulation. New tenancies must have an EPC rating of at least C by the end of 2025. For existing tenancies, this will apply from 31 December 2028.

(Source: Paragon Bank, Rental Sector Energy Challenge report, July 2022)

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This firm usually charges a fee for mortgage advice. The amount of the fee will depend upon your circumstances and will be discussed and agreed with you at the earliest opportunity.

■ The contents of this newsletter are believed to be correct at the date of publication (January 2023).

■ Every care is taken that the information in the *Mortgage & Protection News* publication is accurate at the time of going to press. However, all information and figures are subject to change and you should always make enquiries and check details and, where necessary, seek legal advice before entering into any transaction.

■ The information in this newsletter is of a general nature. You should seek professional advice tailored to your needs and circumstances before making any decisions.

■ We do hope that the newsletter is of interest to you, however, please inform us if you no longer wish to receive it.