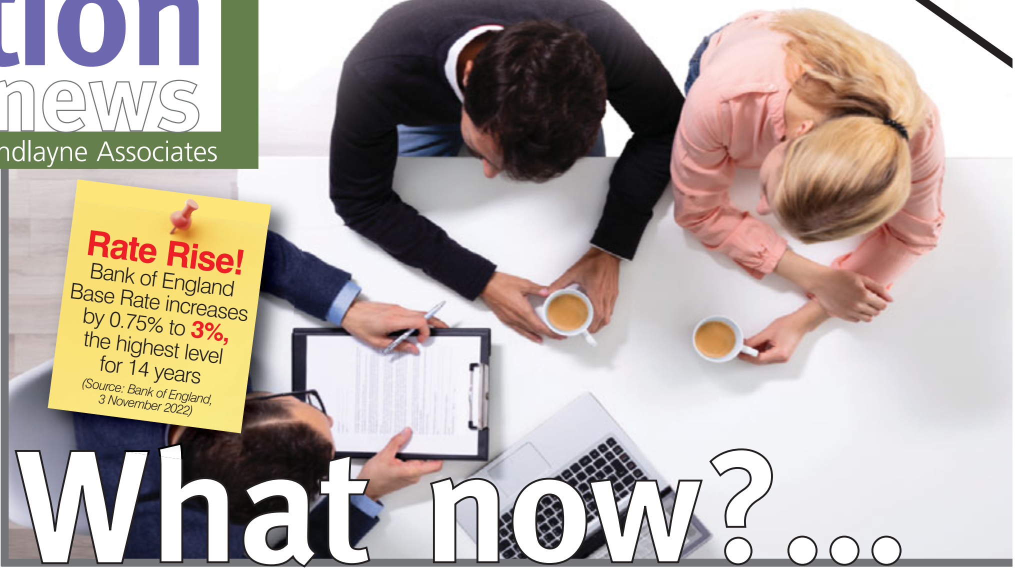
Autumn/Winter 2022

Information to help meet your borrowing and protection requirements

Mortgage & Protection news

The newsletter from Ian Taylor of Sandlayne Associates



What now?...

Amongst the current turmoil, we've seen a sizeable increase in mortgage interest rates.

In light of this, an analysis by the Resolution Foundation has suggested that for over five million households, annual mortgage payments may rise by an average of £5,100 between now and the end of 2024. Although £1,200 of this amount was attributed to the impact of the mini-budget - much of which has now been shelved.

(Source: Resolution Foundation, 15 October 2022)

A further consequence of the financial crisis following September's mini-budget is that we have a new Prime Minister, which helped to calm the financial markets.

With a new Chancellor too, the **Autumn Statement** hopes to continue that process, compared to what happened in September. It focused on balancing the books, with higher taxes, and lower government spending. This will, unfortunately, exacerbate the financial pain for many who are already suffering from the cost of living crisis.

Inflation at a 41-year high

This has all occurred against the continued backdrop of high inflation, which sits at around 11%, and this will continue to have an impact on interest rates.

(Source: Office for National Statistics, CPI, November 2022)

So, **is it now time to reassess your own mortgage borrowing needs?** Of course, those on fixed rate deals would remain, if wanted, at their agreed interest rate until the end of their deal period.

Stamp Duty decrease

Since September, property purchasers (in England & N. Ireland) now benefit from reduced stamp duty - up until 31 March 2025.

(Source: www.gov.uk/stamp-duty-land-tax)

Base Rate rise

Upward inflation has been a contributory factor in the Bank of England Base Rate rises, which currently stands at 3%. Whilst it is not the only determinant that influences mortgage interest rates, it can have a knock-on effect. And recent comments from the Governor of the Bank of England hint at further rate rises. *(Source: Bank of England, 3 November 2022, and Governor speech 15 October 2022)*

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Autumn Statement

To help improve the economy, the key objectives were:
- to provide funding for the so-called £55bn black hole.
- to tackle inflation.
- to show the financial markets that the government is being responsible.

■ More support (albeit reduced) will now be there to help with energy bills in the 12-month period beyond April 2023.

■ An increased windfall tax on the energy companies will also be levied.

■ Those claiming benefits, or the state pension will see their payments rise in line with inflation (September's 10.1%).

■ Conversely, some tax-raising thresholds will now be frozen until April 2028, including income tax. Also, the threshold at which the top rate of tax will be applied has been reduced from £150,000 to £125,140, from April 2023.

(Source: HM Treasury, 17 November 2022)

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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.**

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

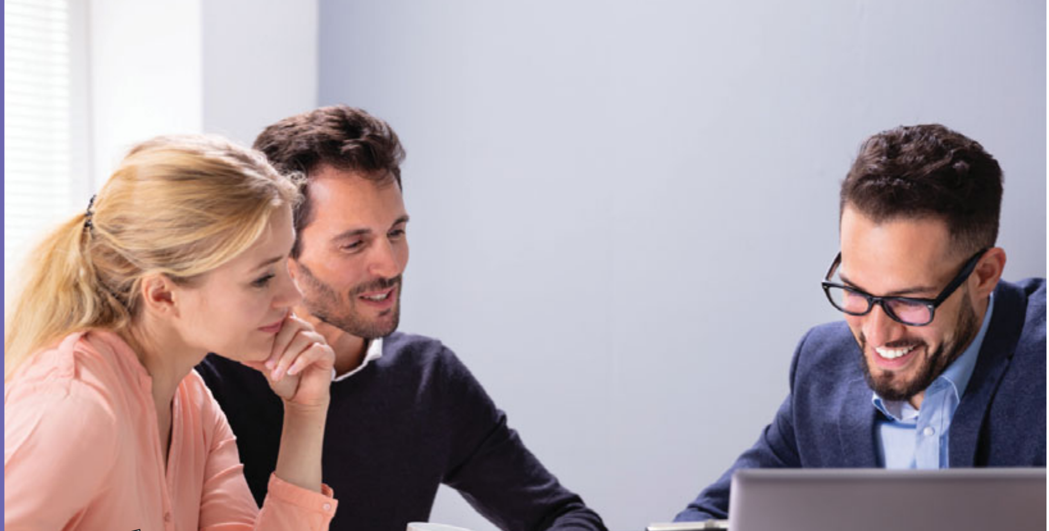
Monthly payments for a mortgage per £1,000 borrowed over 30 years

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.



What now? ... (contd)

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Mortgage Rate movement

The rising trend in rates will be a shock for many. Although, with a degree of calm returning to the markets, some lenders have recently reduced their interest rates, as a number had already factored in a rise in the Base Rate. However, rates are still a lot higher than a year ago, and even against what was on offer back in the Summer.

(Source: Moneyfacts, average rates comparison to November 2022)

Securing a suitable deal

Future Base Rate decisions will have an effect on the marketplace, as will the impact of the Autumn Statement.

Understandably, it is at times like these that **our skillset can really be utilised to your advantage.**

For example, some homeowners may view the combination of rising costs, and higher interest rates with great concern. In which case, when looking for a new mortgage deal, they may add selling up and downsizing into the mix.

Of course, the circumstances for each borrower will be different, and that's why it's vital that you take advice.

House prices

In the midst of all this, UK house prices continue to rise, by 7.2%, on average, in the year to October 2022. But the general view is that price rises will ease further over time, with possible falls.

However, on a positive note, price rises over the last few years may offset any fall, as many existing homeowners have built up their property asset value. For example, in the **last two years alone, the average house price has increased by almost £50,000 - a 22% 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 £52,000 to about £273,000.** That's more than a fivefold increase. *(Source: Nationwide, House Price Index, October & Q3 2022)*

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.

Remortgaging early?

In a broadly rising market for interest rates, some borrowers may feel that it's beneficial to pay the **early repayment charge** to ensure they can get what they believe is a better rate now, rather than waiting until their deal period ends.

Please talk to us first, as we can run through the options, and assess if it might save money, or cost you more.

This is just one reason why you should talk to us...

With so much to consider, it can be quite confusing. For our part, we have the expertise, and work in this sector day-in day-out (and currently many evenings!).

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

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

Be Protected

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 taking 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.

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.

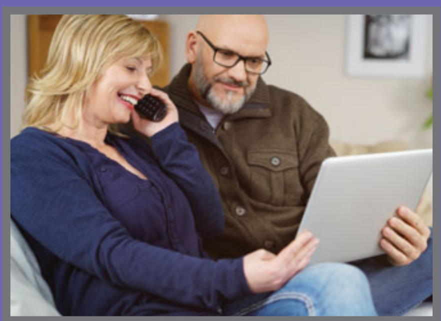
Income Protection

- 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)*

Coming to the end of your mortgage deal rate period?

Across 2022 and 2023, around 1.3m and 1.8m borrowers, respectively,* will see their fixed rate mortgage deals come to an end. That accounts for **almost half of all fixed rate borrowers!** 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 4% 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 £250 more a month. *(Source: Moneyfacts, November 2022)*

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.

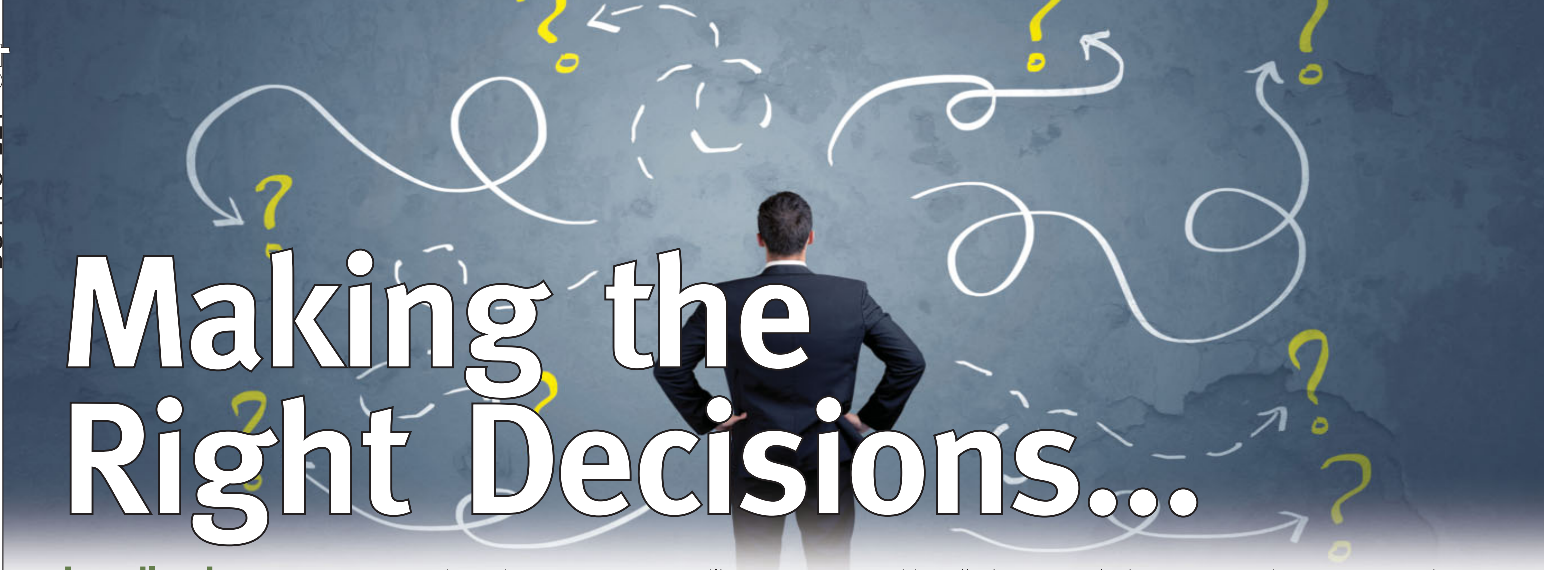
- Don't wait until your deal rate ends. Talk to us 6 months ahead of that date. And, in the current marketplace we might be able to secure a more suitable deal than what may be on offer 6 months down the line.

- 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 home 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)

■ **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: 01580 755555 Email: sandlayne@msn.com Web: www.sandlayne.co.uk**