Autumn/Winter 2022

Mortgage & Protection news

The newsletter from The Mortgage Zone Ltd

The Mortgage Zone Ltd

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)

The Mortgage Zone Ltd
2 Marshall Street
Heanor
Derbyshire DE75 7AT

Tel: 01773 535354
Mob: 07973 815788
Email: paul.simms@tmzh.co.uk

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

■ The Mortgage Zone Ltd is authorised and regulated by the Financial Conduct Authority.

■ There may be a fee for mortgage advice. The precise amount will depend on your circumstances, but we estimate that it will be £495.

The Financial Conduct Authority does not regulate taxation advice.

■ Your home 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

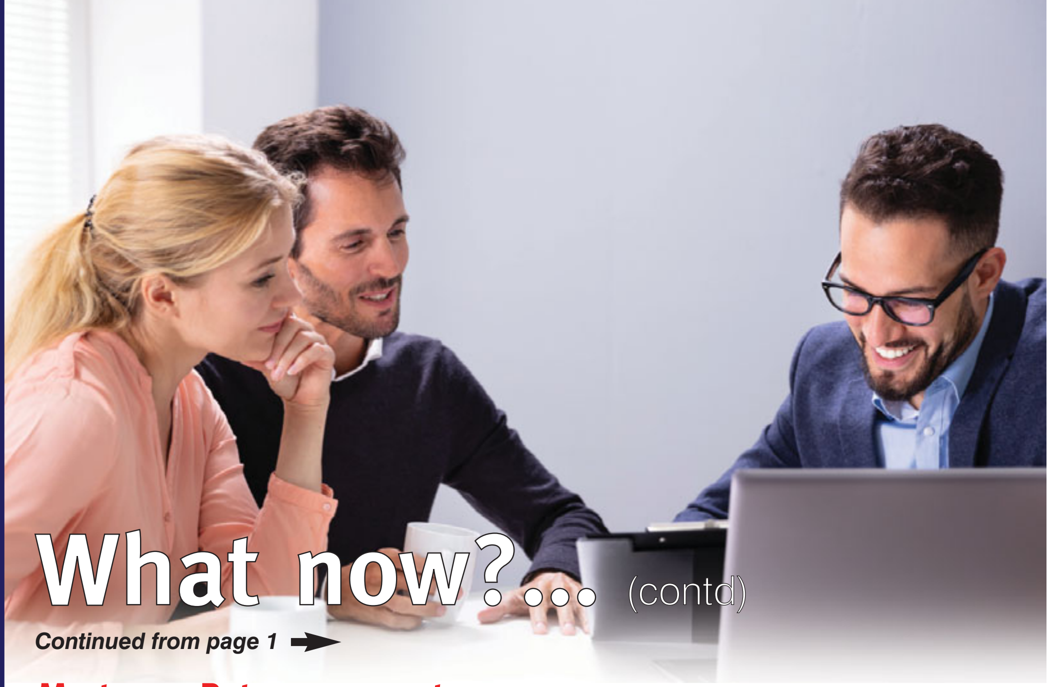
Monthly payments for a mortgage per £1,000 borrowed over 30 years

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.



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 4.4%, on average, in the year to November 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, November & 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.

Autumn Statement - key facts

In November's Autumn Statement, the Chancellor announced that of the **£55bn** black hole in finances, just under half will come from taxes.

Quite apart from the issues created by the September mini-budget, the UK is still suffering from the impact of the war in Ukraine, and the fallout from Covid. A consequence of this is that the UK is now in a recession, and the Office for Budget Responsibility has said that the economy will shrink by 1.4% next year.* Both inflation and interest rates have also risen markedly, and no doubt influenced the decisions announced in the Autumn Statement. And here are some of the key elements:

Income Tax

The income tax personal allowance threshold will be frozen until April 2028. This means that millions of people will end up paying more in tax, as their pay goes up.

Also, from April 2023, the point at which the highest earners start paying the top rate of tax will be lowered from £150,000 to £125,140 for taxpayers in England, Wales and N. Ireland.

Energy cost support

The help for energy bills will be extended (for 12 months) beyond April 2023, but will be less generous. A household using a typical amount of gas and electricity will pay £3,000 annually, up from £2,500, as the Energy Price Guarantee rises.

Help for Mortgage Borrowers?

- The Chancellor's hope is that the fiscal plans will help to reduce the cost of borrowing, including those of mortgage borrowers. Time will tell regarding this.
- With inflation currently around 11%, the Office for Budget Responsibility predicts that inflation in 2022 will end up at 9.1%, and 7.4% for the following year.* This would be a welcome step in the right direction.
- The recent announcement of the Stamp Duty reduction (for England & N. Ireland) will be retained, but only until 31 March 2025.

*(Source: *Office for Budget Responsibility, Economic & Fiscal outlook, Nov. '22)*

State Pension & Benefits

Both the state pension and benefits will rise by 10.1%, in line with September's inflation figure, with pensioners seeing this increase from next April.

Capital Gains Tax

The threshold on which no tax would be paid is £12,300 for the current tax year, but will reduce to £6,000 in 2023/24, and £3,000 in 2024/25.

Council Tax

The government has given councils in England, which provide social care, greater freedom from April 2023 to increase their council tax bills - up to 5%. It's currently up to 2.99% without a referendum.

Inheritance Tax

The threshold levels for this tax will be frozen until April 2028, and would again mean that more estates will face this tax, which could kick in from as low as £325,000. Or, could be as high as £1m.

Windfall Tax

This tax on the energy companies will increase from 25% to 35% (and even 40% in some cases), and raise £14bn next year, alone.

Social Care support

For homeowners, who have built up their property wealth over the years, a reform was going to come into play in October 2023 (in England) that would put a cap of £86,000 on personal care cost contributions. It was partly designed to help the homeowner retain more of their wealth for their beneficiaries. The implementation of this reform has now been delayed for two years.

(Source: HM Treasury, November 2022)

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

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.

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)

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.

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

FIRST-TIME Buyer

The current market climate will present both positives and negatives for those who **want to buy their first home.**

Rising interest rates are a concern for all, but maybe more so for those looking to purchase their first property.

This is because the smaller the deposit is, the higher the interest rate offered will be. Yet even here there may be issues, with some lenders cutting back on their 5% deposit deals, with concerns that negative equity may rear its head in the future.

It's understandable that some potential first-time buyers may be put off, but it's vital that you take professional advice first, to identify what's in front of you, as positive options may well exist.

Stay renting

Like normal residential borrowers, many landlords will have mortgages too for their rental properties, and they may pass onto their tenants their increased borrowing costs. Also, unlike buying your own home, the monthly rental payments will not be going towards possibly building your own property asset value.

Buy a property

A positive scenario is that interest rate rises may bring about a calming down, or even a reduction in house prices, which would be good for the first-time buyer.

Stamp Duty

If you're purchasing a property (in England or N. Ireland) then even if it cost as much as £425,000, there would no longer be any stamp duty to pay. Other residential borrowers would face a comparable tax bill of £8,750, increasing to £21,500 for landlords. However, the current band rates will only run up until 31 March 2025.

Talk to us

We can help you with your application, factor in any financial support from parents (or grandparents), consider any specific government help, identify areas to improve once you obtain your credit score (see box item), and then scour the market for the most suitable deals on offer.

If this route is of interest for you (or a family member), then please get in touch to find out more.

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

Check your Credit Rating

Not being on the Electoral Register, or missing paying a monthly mobile phone bill can work against you, so do check and resolve any issues.

A credit score is designed to try to predict your future behaviour. So, those with a poor score may suffer, as can others who have no credit history at all!
Make sure you 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

As every lender has its own 'perfect customer' profile, a rejection from one isn't necessarily a rejection from all. By talking to us we'll have a better feel for items which may score you down and where you might get a more favourable response for credit.

With the current demands on our disposable income, imagine what would happen if a wage earner then experienced reduced earnings from being **off work long-term due to an illness, or injury.** Could they survive financially?

INCOME Protection

If you found yourself in this position, some may initially benefit from financial support from their employer. However, it's only likely to be there for a defined period. Plus, there's limited state support to access, with Statutory Sick Pay at around £100 a week.

However, will that be anywhere near enough to ensure you can continue to put food on the table and a roof over your head (via continued mortgage or rental payments) - and that's just for starters.

Average lifetime earnings

Consider this; across a working lifetime, taking the average annual income of around £32,000, this could equate to about **£1,500,000** (discounting inflation). This amount is well over five times the current average value of a UK home - circa **£270,000.**

Yet many will willingly insure their home, and 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, October 2022 release; Nationwide, House Price Index, October 2022)

Finding the extra £s

With a Cost of Living crisis, it's quite likely that you're already looking at cost-cutting, encompassing all those little items we may take for granted, like the odd takeaway or a magazine. As part of that process, it could also be feasible to put aside some of those savings to help fund a Protection plan.
Whilst we don't expect you to give up all of life's little luxuries, cutting out just one unit each week of the items below, could **save around £195 each month!**

Treats	£ Cost/unit (est.)
Soft drink	1.50
Snack	1.00
Magazine	2.25
Coffee (takeaway)	3.50
Pint of beer or lager	4.00
Glass of wine (175ml)	4.25
Taxi	8.00
Cigarettes (pack of 20)	12.50
Takeaway meal	8.00
Total =	£45.00

Could it happen to me?

Most of us will feel that being off work long-term, and unable to earn an income is unlikely. Yet almost **2.5 million people in the UK, are currently off work due to long-term sickness,** equating to around 1 in 10 of those in full-time employment.

(Source: Office for National Statistics, Labour market overview, October 2022 release)

A solution for you...

If you did find yourself in this position, then there is a protection product to utilise once any employer support, or savings, drops away, and that's an **Income Protection policy.**

Income Protection is a flexible product, and 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.

The product also allows you to defer payouts until you really need them (which could be for up to 52 weeks). The longer you opt to defer, then that will be reflected in a lower premium.

Alternatively, if an even 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).

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: 01773 535354 Mob: 07973 815788 Email: paul.simms@tmzh.co.uk**