

# Mortgage & Protection news

The newsletter from Pennymatters Ltd

Is it time for a Financial Spring Clean with regard to your Mortgage Loan needs?

» As we move through 2022, will it be any calmer than 2021? Last year, we saw the 'race for space', with many looking for a different way to live. This resulted in a high level of property purchases, and strong house price growth.

In 2022, there's still a desire to move, balanced by a lack of available properties to purchase. Plus, there's still Covid, and cost of living concerns, with inflation already standing at over 5%. These will be exacerbated further by the recently announced Energy cost rise, which apply from April.

The impact on the Bank of England's 2% inflation target has resulted in **Base Rate rises**, and possibly further increases to come this year, with the knock-on effect on mortgage rates. (Sources: Office for National Statistics, Consumer Price Inflation; Feb '22; Bank of England, Feb '22)

### Still excellent deals...

That said, even though the direction of travel for interest rates is upwards, rises are coming from a **record low base**, which means that there are still **excellent deals** out there.

For a wide range of borrowers (such as the following), perhaps **now's the time to act** to lock-in the current deals:



- Looking to secure their **first property loan**.
- 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.
- Those who need **more living space**, either within their current home, or elsewhere.
- Others may be worried that **further cost of living rises** could impact on their mortgage affordability calculations into the future.

### House Prices

The average UK house price rose by 11.2% in the year to January 2022.

(Source: Nationwide, House Price Index, January 2022)

Whilst growth is expected to ease to single digits over 2022, rises in the last few years may have been beneficial for current homeowners. It might even **open up better rate deals**, if borrowing against a property that's risen in value over recent years.

### Example Average Rates

The following are comparative average fixed rates across the board (to give you a general feel). For those that tick all the boxes, a number of deals are on offer at around 1-1.5%, largely for borrowers with sizeable deposits.

- **Coming off a 2-year fixed deal**
  - Average rate Feb 2020 = 2.42%
  - Average rate Feb 2022 = 2.46%
- **Coming off a 5-year fixed deal**
  - Average rate Feb 2017 = 2.91%
  - Average rate Feb 2022 = 2.72%

(Source: Moneyfacts, 7 February 2022)

### Lender requirements

Borrowers will be well aware that lenders continue to apply stringent controls on the 'evidencing of income' and 'affordability'.

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



# Do get in touch (contd)

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However, whilst the cost of living rises will not ease this situation, the Bank of England is looking to consult on possibly withdrawing, or easing, the ‘affordability’ requirements sometime in 2022. This rule currently requires lenders to ensure that borrowers can afford a 3% rise in their mortgage interest rate before approving an application. If removed, or eased, it would then open up more property and borrowing options for purchasers, and remortgagers.

## Low deposit deals

Deals such as 95% and 90% loan-to-value

may have bucked the trend in rising rates, as average rates have largely remained stable over recent months. This is partly a reflection of the enthusiasm of the Government to support the First-Time Buyer.

*(Source: Moneyfacts, February 2022)*

## Green Mortgages

With a lot of talk about rising energy costs, it’ll focus the mind of many to seek out more energy-efficient properties, or renovate the existing one. This is where a Green Mortgage could be of interest - a product offering that’s sure to grow in popularity.

## Why you should talk to us

With so many options to consider, it can be quite confusing. For example, there are the enticing headline rates (where you’ll also need to consider the associated lender fees), the option of a fixed or tracker rate, the length of the overall mortgage deal, and all the information lenders require.

So, it’s no wonder that most opt to **take our professional advice** to help identify a suitable route forward.

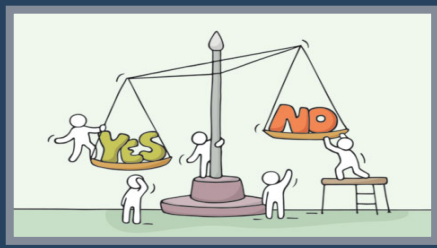
**Please get in touch to hear more...**

**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.**

# Ready to REMORTGAGE?

According to Barclays, one in three homeowners know **remortgaging** could save them money, yet 49% of homeowners have never switched their deal. *(Source: Barclays, October 2021)*



Some borrowers would simply opt to remain with their existing lender on a like-for-like mortgage deal. This is called a **Product Transfer**, which may be the most suitable route to adopt, and we can help you with this.

## Assess the wider marketplace

However, it would also be prudent to consider what’s on offer elsewhere. Particularly, as **your circumstances may have changed** since you took out the previous deal.

You might be earning more, may now be with a partner/family, possibly benefited from your property rising in value, face financial issues, and so on.

All of this needs to be weighed up, as alternative lenders may be better suited for your current situation.

Whilst, at the same time, your existing lender’s appetite to lend may have waned.

## Remortgage early

If you think that the current decent deals on offer are also something you’d like to snap up now, ahead of the end of your deal period, then that’s feasible too.

However, there may be an **early repayment charge payable to your existing lender, if you do remortgage.**

It’s then about doing the maths.

## Remortgage for further funds

Any type of remortgaging isn’t simply about looking to take up a new deal for the same amount of borrowing. You may be **keen to raise extra money** to cover the cost, for example, of home improvements or major renovations.

## Sitting on your lender’s SVR

Whatever you opt to do, it’s probably best to avoid coming to the end of your mortgage deal period and not setting up a new one, as the lender will revert you onto its Standard Variable Rate.

On average, this is 4.46%. This could then result in a hefty increase to your monthly payments. Or, conversely, a sizeable saving if you’re currently on an SVR, and now keen to remortgage.

*(Source: Moneyfacts, 7 February 2022)*



# It's your First-Time

Buying your first property is not only of importance to the **First-Time Buyer**, but often to the **Parents** and **Grandparents** too, and is something the **Government** continues to be keen to deliver support on.

» While many First-Time Buyers face enormous challenges to get onto the property ladder, a positive sign is that last year **over 400,000 bought their first home** - up 35% on the year prior.\*

Some of the key triggers were people looking to live a different life due to the pandemic (possibly outside the major cities), and the Stamp Duty reduction, which was of benefit for some parts of the UK. However,

it demonstrates the desire to get onto the first rung of the property ladder. So much so, that **nearly half of all renters would like to buy out their landlord**, if circumstances allowed.

*(Source: Waybome, Rent to Buy research, January 2022)*

## Flats rise less in value

With the 'race for space' helping to push up property prices across the board, this could make securing the first one even tougher.

However, the biggest race has been for detached houses (which saw a 17% price rise between March 2020 to the end of 2021).

**Flats rose less, at 9%** over the same period, with a 15% rise for terraced & semi-detached properties. *(Source: Halifax, January 2022)*

## Pulling together the Deposit

Despite the Government delivering various schemes, along with the return of more 5% and 10% deposit deals from lenders, the deposit itself continues to be the major stumbling block.

The figures in the box show that the average deposit covers 20% of the purchase price, but you may be able to get onto the ladder with just a 5% deposit. Across the UK, that'll still mean saving (or securing) around £13,500, on average.

For those lucky enough, there's also the 'Bank of Mum & Dad' (plus Grandparents) who may be able to help out.

## And how we can help...

Whatever your circumstances, we can help navigate a way through the deals on offer, assess your credit rating, run through all the paperwork required, plus chase everyone up along the way.

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

## QUICK FIRST-TIME BUYER FACTS

- Average age = 32
- Average price = £264,140
- Average deposit = £53,935, equating to 20% of property price
- Average purchase price ratio vs. earnings = 6.9

*(Source: \*Halifax, First-Time Buyer Review, January 2022)*

# It's not just COVID...

Across 2020 & 2021 around **1,350,000 people died** in the UK - that is **over 1 per minute!** Covid accounts for just 11% of that amount - 150,000.

*(Source: Office for National Statistics, Death data, 2020 and 2021 (provisional), Gov.uk dashboard for Covid data)*

Yet it's Covid that has really focused people's minds on the need to protect themselves, in case of early death, or the prospect of long-term illness. But, as the figures above show, you're far more likely to die from the main killers such as cancer, heart disease, dementia and Alzheimer's.

## Those aged 15-64

Also, death is not an issue simply for those in their retirement years. Around 200,000 15-64-year-old UK adults, died across 2021 and 2022, an amount that's

more than all Covid deaths! Quite apart from this, ahead of that there are about 2.3m people in the UK who are currently off work long-term due to sickness.

*(Sources: Office for National Statistics, Deaths, 2020 and 2021, and Labour market overview, February 2022)*

Whilst this is not a cheery topic, it reinforces the importance of discussing protection policies with us that can help protect **your family, your income stream, and your pocket.**

**Please get in touch to discuss this.**

98% of all claims were paid out in 2020, equating to £17,000,000 a day!

## 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)*

# Thinking Differently



**Landlords**, as ever, are a pretty resilient group, and that's why the Private Rented Sector remains a sizeable marketplace encompassing around 5m properties.

*(Source: English Housing Survey, 2021, and then pro-rata calculation for all UK)*

» Whilst the pandemic has created issues for Landlords, the main fundamentals are still in place:

**Demand remains.** For renters who want to become homeowners, there's a lack of suitable housing stock, and problems with building up a deposit. These issues mean that many may stay as renters, and that helps to deliver the current decent rental incomes.

**House prices continue to rise.** Landlord's, with an existing portfolio, are likely to have benefited. This opens up better opportunities to access funds to secure new properties, or to renovate current ones. This may be timely in light of the future Energy Performance Certificate changes, requiring a rating of C, or above (phased in from 2025).

**Range of mortgage deals on offer.** Like the residential market, rates are on an upward trajectory, but they're still coming from a very low base. Also, to reflect lender confidence in this sector, there has been a limited return of some 15-20% deposit deals - rather than the norm of needing at least a 25% deposit.

*(Source: Moneyfacts, January 2022)*

## Remortgaging this year

A sizeable number of landlords (on 5-year deals) will also be actively looking to remortgage this year, quite apart from those that simply want to take advantage of the rates on offer.

This is because over twice as many landlords took out 5-year deals in 2017 than 2016, as a consequence of the new regulatory issues at the time. Those rules required less stress-testing on 5-year deals against those with a shorter deal term - hence the shift.

So, if you're part of this group, your circumstances are likely to have altered over the last five years. Also, the marketplace will have changed (such as the move out of the big cities in recent times), plus lender options would have moved on. As ever, we're there to help you through this process.

## Limited Company status

A reflection of the adaptability of landlords is the sizeable growth in those opting for Limited Company status, with about 270,000 companies now in play, with a record number set up in 2021.

*(Source: Hamptons report, January 2022)*

The higher rate taxpayers have been particularly motivated by it, as the regulatory rules that kicked in from 2017 limited the mortgage finance that you could offset against your individual income. The Limited Company route may help mitigate those tax changes.

However, it 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.**

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



# Protect your FAMILY...

There are different types of **LIFE COVER** plans on offer, and here are two choices. One looks at life cover for families, and the other considers options through a business.

## FAMILY INCOME BENEFIT

General life cover that pays out a lump sum (if a valid claim is made) is often in place to help settle the outstanding mortgage. That's a great help, for the partner left behind and their children, but what about ongoing everyday items such as food, clothes, utility bills, childcare, or other expenses like holidays and university costs?

This is where a **Family Income Benefit** plan could deliver much-needed support. In the event of death, it would provide a regular tax-free income for your loved ones from the time of the claim to the end of the plan term.

It's often taken out over a 10 to 20-year term, or whatever may be appropriate in your circumstances. The idea is that should you have a valid claim, then it's in place to **pay out until the children have grown up**. The potential 'total' payout over time decreases the further through the policy you get, which is reflected in a lower premium cost.

### How it works

If you took out a 20-year term, which was set up to pay out £20,000/year and it was claimed against after one year, then the family would receive £20,000/year for the next 19 years, equating to a total payout of £380,000 (if there was no index-linking).

However, if for the same plan, there wasn't a claim until 18 years into the policy term, the total payout would be just £40,000. If, fortunately, there was no claim at all within the 20-year period, then the policy simply runs the whole term without any payout.

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

## RELEVANT LIFE PLAN

This is a life cover plan that's set up by employers for employees (including directors), and is designed to pay out a lump sum to the family of the person covered, should they die across the period of the cover.

The plan could be in addition to any other 'personally funded' life cover that might be in place, and it's largely designed for small and medium-sized businesses (with a few exceptions, such as Sole Traders and Limited Liability Partnerships).

### Tax-efficiency

A Relevant Life Plan can be a tax-efficient way to secure some all-important life cover. In this respect, do take advice from an accountant for further clarification.

Even though the company makes the payments (a saving for the employee on premiums against paying personally for life cover), it's not typically treated as a 'benefit in kind', and would therefore not be included in the employee's income tax assessments.

Also, those with a substantial pension pot may benefit, as the plan will not form part of the lifetime pension allowance.

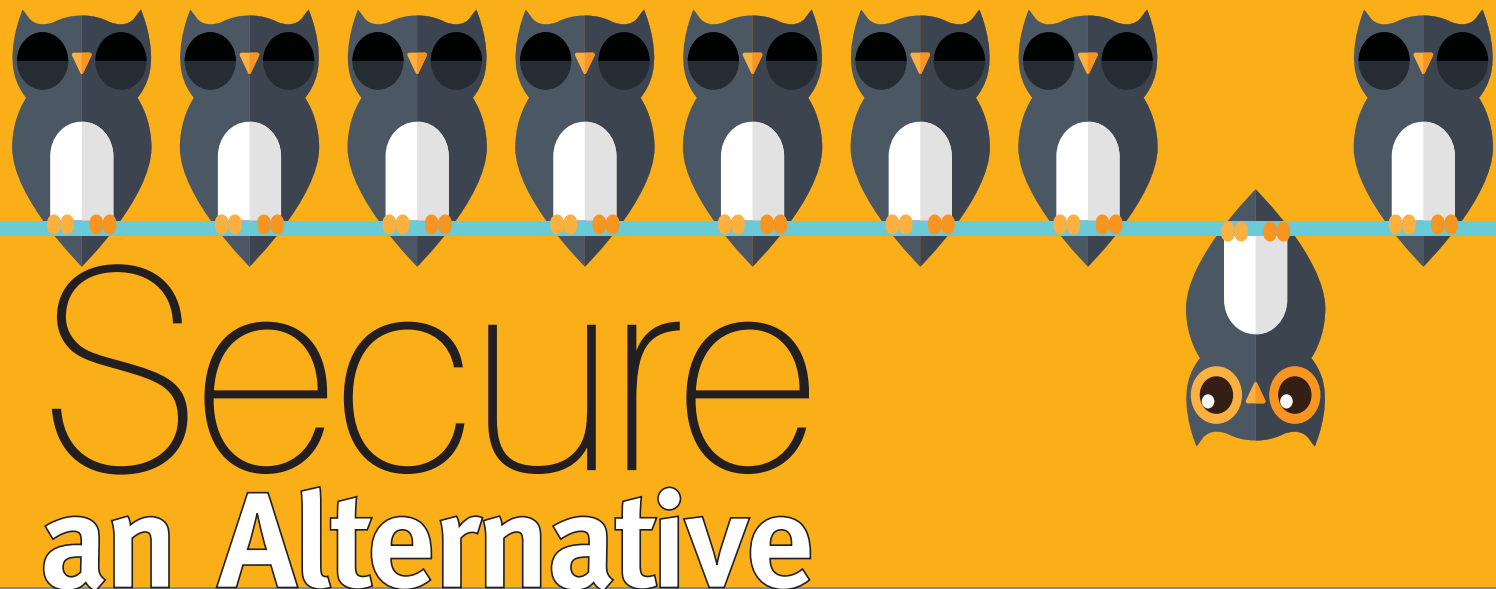
And, as the plans are generally written into trust, any payout should not form part of the deceased's estate, with possible Inheritance Tax benefits, plus it could be paid out quite swiftly.

Additionally, the payments may also be an allowable expense for the company when calculating its own tax liability.

### It's transportable

If the employee leaves the company, the plan can be converted into a 'personal policy' (with some amends), or possibly be taken on by the new employer.

**Whatever your status, do talk to us to find out if a Relevant Life Plan could be a suitable option for you. HM Revenue & Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen. The Financial Conduct Authority does not regulate trust and taxation advice.**



# Secure an Alternative

Did you know that there are other borrowing options out there, such as a **Secured Loan?** This might be an option to consider, particularly if it's not a sizeable additional amount that you want to borrow.

» With the last couple of years of the pandemic, and partly working from home, you may feel that whilst you don't want to move, you certainly need more space.

However, it may not require large funds to make remortgaging for the extra money a worthwhile option. This is where a **Secured Loan** could be a solution, and for possibly other needs too, such as consolidating debts, or helping to mitigate the cost of living rises.

Secured Loans have seen a sizeable resurgence in recent times. The growth figures set out in the box is a continuation of the pick-up in this sector. Q4 2021 was the highest recorded level of lending since Q4 2008 (in the aftermath of the credit crunch).\*

## Secured Loans explained

- It's designed for homeowners who can use part of the equity in their property to obtain a loan that would sit as a second charge on top of their mortgage - which may be with a different lender.
- If you are using the funds to help consolidate your debts (at a lower interest rate), then taking out this type of loan may mean you end up paying more in interest payments, than if you paid off your credit and store card debts over a shorter period.
- Conversely, the repayments for a secured loan are set over an agreed timeframe, so it does provide a disciplined way to pay off borrowings.

## SECURED LOANS - THE FACTS

- Secured Loan lending was up 76% year-on-year, and totalled £118m in December 2021.
- Average loan size - £47,394.
- Average loan completion time - 23 days.
- Average loan term - 16.4 years.

(Source: \*Loans Warehouse, Secured Loan Index, December 2021)

## When a Secured Loan could be considered

- You may not want to jeopardise your current mortgage deal, due to the rate you've secured, or perhaps not wanting to face early repayment charges against the overall loan vs. the small extra funds you require - or perhaps it's both.
- Any extra mortgage loan borrowing may put you into a higher loan-to-value band, possibly resulting in an increased interest rate applicable to the whole loan.
- You might be sitting on an interest-only mortgage and should you require further funds, then it might require you to move onto a repayment mortgage scenario. In which case, your monthly payments are likely to immediately rise, as both the capital and interest will then be paid off.
- You could be a mortgage prisoner, where the option to remortgage is not on offer.

**If this route is of interest, then please get in touch to find out more.**

**■ Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on a mortgage, or any other debt secured on it.**

**We may charge an initial fee for mortgage advice, but this will depend on your circumstances. Our typical fee is £199.00. We then work on a fee or commission basis. If you choose to pay by a fee this will typically be 0.50% of the loan (i.e. £500 on a loan of £100,000). Some mortgages are not regulated by the Financial Conduct Authority.**

- The contents of this newsletter are believed to be correct at the date of publication (February 2022).
- 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.

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