Essentially Mortgages

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Q2 2022

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Quilter Financial Advisers

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Life changes – so should your mortgage

A cost-of-living crisis has emerged in recent months and has been exacerbated further by pressure on energy and commodity prices following Russia's invasion of Ukraine. The latest Office for Budget Responsibility (OBR) figures suggest inflation will average 7.4% across the rest of 2022, peaking at 8.7% during the final quarter[1].

Families have already been expecting a significant hike on their annual energy bills. As every penny counts, it's important to consider all your options for budgeting and streamlining your outgoings; this could be the time to explore whether more favourable rates are available on your mortgage.

Paying over the odds?

If your mortgage deal has expired, it's likely you are on your lender's Standard Variable Rate (SVR) and will have been hit already by recent increases to the Bank of England Base Rate. SVRs can be higher than those available on fixed deals, especially when interest rates are on an upward trajectory. SVRs fluctuate as interest rates rise and fall. Switching to a fixed rate mortgage deal instead could both save you money and make budgeting easier, as you'll know exactly what is going out each month.

Take time to review and get advice

You can switch your mortgage at any time you like but you could face early repayment charges (ERCs) in doing so. Even if your current mortgage deal hasn't quite expired, however, you could start the remortgaging process up to six months in advance, as many lenders allow you to lock into a product before the end of your current deal. Getting ahead in the process can give you the time you need to assess your available options.

That's where we can help – by searching the market for the most suitable mortgage finance for your circumstances.

[1]OBR, 2022

The war in Ukraine and UK property

Many of us have been closely following the sad and shocking news about the Russian invasion of Ukraine. You're likely aware that sanctions on Russia will have an impact on fuel prices – but did you know that the UK property market might also feel the effects?

Firstly, with around 150,000 Russians living in London, prime property prices may be impacted by the potential seizure of Russian property assets and economic sanctions on oligarchs living in the UK. But the invasion of Ukraine, and the resultant upward price pressure on Russian and Ukrainian exported goods such as oil, gas, aluminium, nickel and sunflower oil, is pushing the already high cost of living ever higher. And one measure that the Bank of England uses to combat high inflation is to increase its base rate – which then has a knock-on impact on mortgage rates, though not immediate for existing fixed-rate mortgages.

While the economic fallout of the Ukraine invasion remains uncertain, there's one thing about which the experts all agree: the only way is up. And higher interest rates, coupled with the squeeze on household finances, have the potential to slow the housing market following an incredibly buoyant couple of years.

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Best catchment areas command hefty premium

It's only natural for parents to want the best education for their child – but living near to the best schools comes at a price.

According to new research[2], homebuyers are willing to pay a hefty cost to live near to schools rated 'excellent' by Ofsted. The results showed that homes located within 0.25 miles of such schools cost British parents an additional 2.5% on average – this equates to an extra £7,235 for the average UK home.

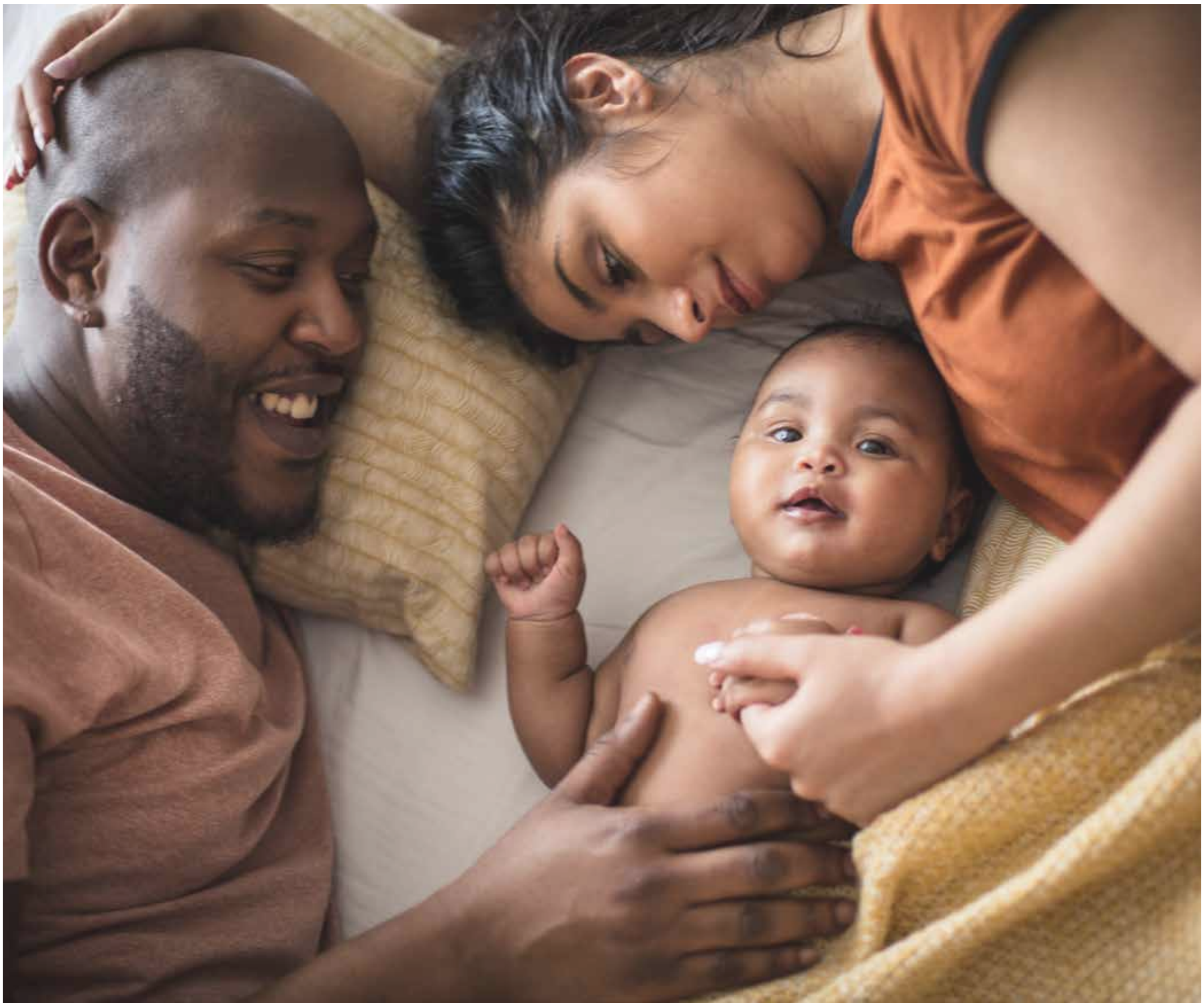
It's all about location

The research also found that the price differential varies according to where in the UK the preferred school is located. East Midlands parents pay the highest premium, with homes near excellent schools commanding 4.4% more. In second place is Yorkshire and the Humber, with a 4.1% average premium, with the North East coming in third at 3.4%.

London commands highest additional cost

While the price premium to live close to an excellent school in London is comparatively lower at 2.9%, higher average house prices in the capital mean that parents must pay an average of £15,143 extra for the privilege, making it the highest additional property price determined through the research.

[2]Bective, 2022



Your key protection needs

Just under six in ten homeowners (58%) have life insurance, a recent study has discovered, leaving a substantial number without vital financial security and wellbeing[3].

Over the years analysis shows that some people shun life insurance because they think it's costly and that policies don't pay out. However, the most recent data shows that 98% of all claims were paid in 2020 and a variety of low-cost options exist for people with a smaller budget.

The sooner the better

In addition to enjoying more years with crucial peace of mind, taking out a policy earlier can result in a long-term saving. It is generally cheaper to get insured when you are younger because premiums will be affected by factors such as age and pre-existing health conditions.

More protection perks

Life insurance provides numerous benefits, but lots of consumers always want a little bit more. Added incentives increase take-up of life insurance policies[4], with activity trackers (15%) the biggest enticement, followed by discounted gym memberships (10%) and fresh food subscriptions (10%), highlighting the link between a healthy, happy life and financial security.

What's right for you?

If you feel ready to protect your life and wellbeing, we can help you find the most suitable cover for your unique needs.

[3]MoneySupermarket, 2022, [4]ABI, 2021

Deposit building for beginners

With the cost-of-living soaring, it's now harder than ever before for first-time buyers to save up a deposit and get on the property ladder.

So, what tips could you pass on to the younger generation to build up those all-important savings?

1. The earlier, the better
Getting started as early as possible is key to building up sufficient savings. Not only will you have longer to build up the amount you need but, with interest rates on the rise, your money will have more opportunity to gain in value. If you can afford to, locking away some of your savings in perhaps a fixed savings account can get you a higher interest rate in return.

2. Draw up a budget
With energy bills and the cost of everyday items rising, you may think you have nothing left to save at the end of the month. But take a closer look. Are there any non-essential costs you could drop to leave you with some money left over at the end of the month, however small the amount? From swapping out branded products for supermarket brands, to cutting out the odd takeaway coffee, every little helps.

3. Open a Lifetime ISA
While the Help to Buy ISA is a thing of the past, a Lifetime ISA offers savers the opportunity to earn a 25% government bonus on their contributions (up to £4,000 per year). A word of warning: withdrawing your funds for any reason other than buying a house (or turning 60) will incur a hefty penalty of 25%. Conditions and eligibility criteria apply.

4. Move back home
This last one won't be an option for everyone but making arrangements to move back home for a set period will allow you to build up funds that would otherwise be spent on renting.

If someone in your family needs help optimising their spending and building up a deposit as quickly as possible – just get in touch.

Buy-to-let investors flock to holiday lets

UK-based holidays have soared in demand during the pandemic, with buy-to-let investors flocking to the holiday let sector to take advantage.

Holiday let mortgage availability has trebled since 2020, making it easier for would-be investors to tap into this demand. According to recent figures[5] there are more than 230 buy-to-let mortgages eligible for holiday lets on the market, versus just 74 back in August 2020.

Competition between lenders has become keen, with average interest rates reducing from 4.14% in September 2021 to 3.92% in January 2022.

Factors to consider

- As you can't buy a holiday home with a standard residential mortgage, you'll need to opt for a specialised buy-to-let or holiday let mortgage
- The government is currently working to close a tax loophole that has seen people claiming tax relief on empty properties. Holiday let owners will soon be required to prove that their property is being let for at least 70 days each year to claim small business tax relief
- It's important to think about the additional costs involved above and beyond buying the property itself. For example, you may have to spend a significant amount up-front to get the property ready for holiday let clientele. You'll also have to consider how much the property is likely to generate in rental income and whether this is likely to be sustainable.

Get advice

We can help you weigh up your options and recommend the most suitable mortgage finance for your needs.

[5]Moneyfacts, 2022

Self-employment and income protection – what you need to know

According to analysis of Office for National Statistics (ONS) data[6], a third of working-age adults now suffer from a long-term illness. The number of adults reporting a long-term condition rose by 1.2 million during the two years of the pandemic.

Long-term ill health can make it very difficult for people to work, with a knock-on impact on their finances. This is particularly true of self-employed people; unable to claim sick pay from an employer or the state, their inability to work could have significant financial repercussions.

Increase your financial resilience

Purchasing an income protection policy could be a cost-effective way of protecting yourself against financial shocks. This type of protection policy is designed to pay out a proportion of your income, tax-free, to help you cover essential costs such as bills, your rent or mortgage, and other living costs. Some insurance providers also include additional benefits in their policies, such as access to specialist clinicians and rehabilitation experts, to help speed up your recovery.

Ask yourself this...

If you're unsure about whether or not you need income protection insurance, ask yourself this:

- Could I afford to continue paying my essential outgoings if my income stopped?
- Do I have savings to help me out if I was unable to work? If so, how long would these last?
- Could I keep my business afloat if I was too ill to work?
- Could I still look after my loved ones and dependants if I wasn't working?

If the answers to any of these questions is 'no' you'd likely benefit from income protection. We can help you assess the options available and give you valuable peace of mind.

[6]Observer, 2022

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Mortgage affordability consultation launched

In 2014, stringent mortgage affordability requirements were introduced by the Financial Policy Committee (FPC) in response to the global financial crisis. Now, the Bank of England (BoE) has launched a consultation[7] on the removal of one of these requirements.

The first of the two requirements is a 'loan to income' requirement that sees lenders mostly limited to offering 4.5 times an applicant's annual income. The second requirement is an 'interest rate stress test', which calculates an applicant's ability to repay their mortgage if interest rates were to rise.

The BoE consultation

While the loan to income requirement looks set to stay, the BoE has launched a consultation into whether the interest rate test could potentially be removed. Despite evidence of falling mortgage rates over the past decade, the test is based on the average 'reversion' rate – i.e. the standard variable rate that borrowers are placed on following the end of a fixed-term deal – which has stayed largely static and is usually much higher than fixed-term rates. This means that borrowers must prove they can afford much higher repayments in order to take out a relatively cheap mortgage.

The BoE's consultation is due to close in May 2022.

[7]BoE, 2022

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The base rate and your mortgage

As inflation continues its ascent, further increases to the BoE base rate could follow. But what effect could this have on your mortgage?

Many mortgage borrowers are on fixed rate deals, meaning that the rising base rate will have no impact on their mortgage payments until their deal finishes. However, it should be noted that when a fixed rate deal finishes, borrowers who don't remortgage will usually be automatically placed on their lender's standard variable rate, which is tied to (and is usually several percentage points higher than) the BoE base rate. Those with tracker, variable or discount mortgages are also likely to see their mortgage payments rise commensurately with the BoE base rate.

Please get in touch to discuss your mortgage options.

Buy-to-let hotspots revealed

Bristol takes top spot for buy-to-let (BTL) investors this year, according to analysis of key indicators impacting BTL desirability (including average total rent, the best short-term returns through yield and long-term return through house price growth)[8].

The city is followed by Oxford, Cambridge, Manchester and Luton to complete the top five. London has been shunned by investors to an extent, dropping from third to sixth place. It seems many landlords are looking to areas with a high student population – where they can attract a greater rental yield.

Scotland

In Scotland, both Edinburgh and Glasgow fall within the top 20 and are cited as *'particularly attractive to landlords looking for short-term yields.'* Edinburgh appears to benefit from a high percentage of private renters (86%) which gives it one of the highest rental returns of all cities.

A central part of the housing market

Head of Mortgage Distribution at Aldermore, Jon Cooper, commented on the findings, *"Private landlords are a central part of the housing market, supporting over 4.5 million households in the UK and, as we emerge from the pandemic, landlords will need to meet the emerging demand for choice and variety from renters. With the economy opening up and EPC rating changes coming in 2025, now is a great time for landlords to talk with their broker to review where they want to take their portfolios in the future."*

Whether you're considering getting into BTL or building up your property investment portfolio, contact us for BTL mortgage advice.

[8]Aldermore, Dec 2021

Your future financial wellbeing

British households saw their financial wellbeing fall at the fastest rate since the onset of the pandemic in Q4 2021 according to the Scottish Widows Household Finance Index[9], which demonstrated the impact of the cost-of-living crisis on people's perceptions of their financial wellbeing.

The strain on household finances is clearly impacting people's ability to save for the future. The Index showed that one in five UK households are currently saving nothing for the future and that 22% are saving less for retirement compared with the same period last year.

Emma Watkins, Managing Director of Retirement and Longstanding at Scottish Widows commented, *"It was a challenging end to another year dominated by the coronavirus pandemic for UK households as rising living costs pinched the pockets of people in the fourth quarter, causing finances to deteriorate at the fastest rate since Q2 2020. With inflation soaring into the new year and cash availability at its lowest since 2014, households' expectations of future financial wellbeing were the most downbeat since the third quarter of 2020."*

If you're feeling a squeeze on your finances, we want to reassure you that we're here for you. With your mortgage likely to be one of your major household expenses, maybe now's a good time to review it and consider your options; we're here to help.

[9]Scottish Widows, 2022

Important information: We have updated our Privacy Policy to better explain how we keep and use your information to profile groups based on factors like interests, age, location and more, so we can better understand our customers, to adapt and improve our products and services. To find out more, please read our Privacy Policy online.