Autumn/Winter 2023

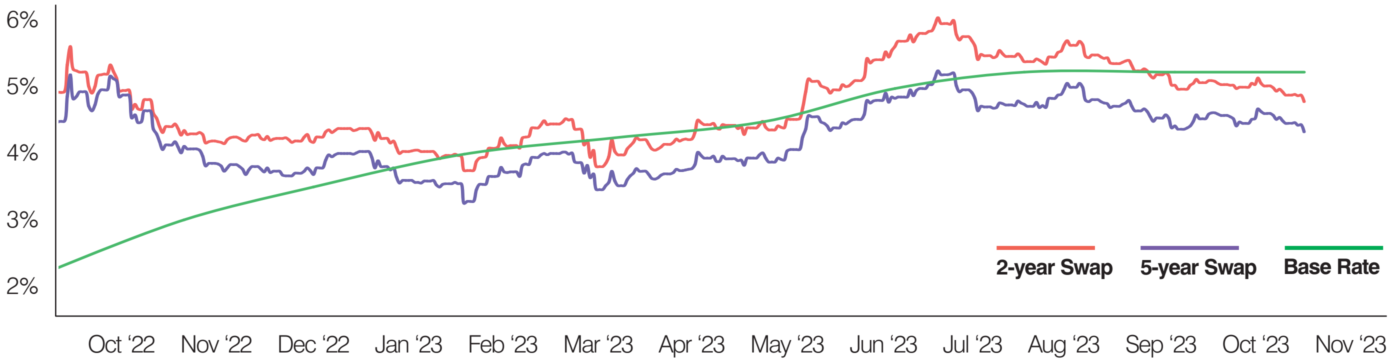
Mortgage & Protection news

The newsletter from Synchro Mortgage Solutions Ltd

Synchro Mortgage Solutions Ltd
Impartial Mortgage Specialists

NO Rate Rise (again)!
Bank of England Base Rate remains at
5.25%
(Source: Bank of England, 2 November 2023)

Here for YOU...



Movement of both Swap Rates and Bank of England Base Rate

Swap Rates influence Fixed Rate mortgage deals. The 5-year Swap, for example, rose to 5.21% following the mini-Budget in September 2022, and dropped to 3.25% at the start of February. And, after a long upward path, both the 2-year, and 5-year rates have been falling.

(Sources: Chatham Financial, Sterling Overnight Index Average (SONIA) Swap rates, to 2 November 2023; Bank of England Base Rate, to 2 November 2023)

Better news...

BASE RATE - Following 14 consecutive **rises**, the Bank of England has again opted to **keep the Base Rate at 5.25%.**

INFLATION - The Bank of England's decision-making is influenced by the continuing good news with regard to inflation. The latest annual rise has reduced to **6.7%** (vs. the peak of 11.1% in October 2022).

Additionally, the 6.1% annual rise in 'core inflation' is also a reduction. The comparative figure a couple of months back was 6.9%.

Core inflation is the discretionary spending that the Bank of England is largely targeting with its rate rises, as it has a target inflation figure of 2%. Also, the government's objective back in January was to get inflation down to around 5% by the end of the year.

SWAP RATES - As shown above, these have also been falling, and they influence the pricing of **fixed rate mortgage deals.**

PRICE WAR AMONGST LENDERS - a number of lenders have recently been **reducing their mortgage deal rates.** Partly, in light of the developments set out above, and also due to their desire to meet their own business targets.

(Sources: Bank of England, 2 November 2023, Office for National Statistics, CPI, 18 October 2023)

Where do we go from here?

Irrespective of what happens next, those currently coming off fixed rate deals will still see rates on offer that are much higher than the case, say, 2, 3 or 5 years ago.

Time will tell, though, if these more positive market developments are either a temporary blip, or the start of a trend. And there still remains the chance of further Base Rate rises to help tackle inflation.

However, as the chart shows, there were gloomy predictions after the mini-Budget, with Swaps rising sharply, but subsequently

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

Here for YOU... (contd)

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they did drop over the ensuing months. Will history repeat itself?

Also, total mortgage lending in 2023 was expected to be around 15% lower than in 2022* (and maybe even lower in light of recent developments). This cooling of the housing market may also build enthusiasm amongst some lenders to fight for market share, as they do have the funds.

*(Source: *UK Finance, December 2022)*

Your next step...

In short, the path forward is difficult to predict, but irrespective of whether you're on a Fixed, Tracker or Standard Variable Rate (SVR), do talk to us if you want to (or have to) **reconsider your mortgage borrowing needs.**

We're also mindful that many of **those who are renting** (who may want to get onto the property-owning ladder) are unlikely to escape these rising costs, as landlords may pass on their extra cost of borrowing.

Whatever your situation, we would endeavour to help make sense of the multitude of options on offer. And you can take comfort from the fact that we operate in this sector day-in day-out (and currently many, many evenings), and have the expertise to deliver suitable advice.

Plus, we can liaise with the various parties (estate agents, solicitors, surveyors, etc) to help make this process as smooth as possible for you. **That's why it's vital that you take advice in this ever-changing marketplace.** 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)

Property prices

The other consideration is the general value of the property you're borrowing against.

There was a 3.3% annual decline in the average house price in October, although encouragingly, there was a month-on-month increase of 0.9%.

What is clear though, for homeowners, is that price rises over time may help to offset any fall. For example, in the last two years alone (within a difficult economic climate), **the average property price has still risen by over £12,500 - equating to about a 5% increase in value.**

Also, prices over the long-term have been incredibly resilient, and in the last 30 years, for instance, we have seen **the average property price rise from around £52,000 in Q3 1993, to about £260,000 in Q2 2023.** That's a fivefold increase.

(Source: Nationwide, House Price Index, Oct '23 & Q3 '23)

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.

How any future Base Rate rise may impact you...

The Bank of England voted, in November, to keep the Base Rate at 5.25%. However, should there be, for example, a 0.25% rise in the future, it could have the following effect:

■ Fixed Rate borrowers

If you're on a fixed rate deal, then any change in the Base Rate would not affect you until your deal period ends. Although it may influence decision-making 6 months+ ahead of the end of your deal period; and will markedly affect the 800,000 fixed rate borrowers whose deals end in the second half of 2023 (see page 3).
And, to some extent, those deals for 1.6m borrowers that finish in 2024.

■ Tracker Rate borrowers

On average, a 0.25% rise in Base Rate may add a further £23.71 per month to payments, on top of previous increases.

■ Standard Variable Rate borrowers

On average, a 0.25% rise in Base Rate may add a further £15.14 per month to payments, on top of previous increases.

According to UK Finance (which represents the banking and finance industry), it said that **lenders stand ready to help anyone struggling with mortgage payments,** with various options to consider.
Plus, the government has now set up a new **Mortgage Charter** to reinforce the support on offer for those that may have payment issues.

(Source: UK Finance, August 2023)

Average Rates

The following are average fixed rates across the board (to give you a general feel).
Better rates will be on offer for some, such as those requiring a 60% (or less) loan against the value of their property.

■ 2-year fixed rate deal
- Average rate, 1 Nov. 2023 = 6.29%

■ 5-year fixed rate deal
- Average rate, 1 Nov. 2023 = 5.86%

■ Standard Variable Rate (SVR)
- Average rate, 1 Nov. 2023 = 8.19%

(Source: moneyfactscompare.co.uk, November 2023)

Time to Remortgage

800,000 borrowers are coming to the end of their fixed rate deal in the second half of 2023. This equates to around one-tenth of all borrowers.

(Source: UK Finance, June 2023)

Breakdown of Mortgage Borrowing

There are currently 8.5m residential mortgage borrowers, set out as follows:

Fixed Rate deals	**= 81%**
Tracker Rate deals	**= 8%**
Standard Variable Rate	**= 9%**
Other	**= 2%**

(Source: UK Finance, 2022 figures, released March 2023)

» Broadly, for those now looking to remortgage, there could be three main options to consider:

- Do nothing, and be placed on the lender's **Standard Variable Rate (SVR)** at the end of the deal period. This is generally not the best option, as the SVR is normally much higher than the deals on offer.
- Identify another **Fixed Rate deal** for 2, 3, 5, or more years.
- Consider moving onto a **Tracker Rate deal** (with no tie-ins). This generally tracks the Bank of England Base Rate at a set percentage above it.

With a Fixed Rate deal you will know where you stand on monthly payments; currently over 80% of borrowers are on this.

Alternatively, Tracker deals might be something to consider if you feel that the Base Rate and Fixed Rate deals may be lower into the future, at which point you could move to a Fixed Rate down the line.

Sub 1-2% deals are a thing of the past

Whatever you opt for, the remarkably low interest rate deals of recent years are no longer on offer, in this more normal interest rate marketplace. This means that most fixed rate borrowers are likely to face a financial shock when looking at the current options, when their deal comes to an end.

To give you an example, the average 2-year fixed rate would be jumping from the 2.29% on offer two years ago to about 6.29%.

If £100,000 had been borrowed, over a 30-year period, then the extra payments might be almost £250 more a month.

(Source: moneyfactscompare.co.uk, November 2023)

Stay, or leave your lender?

That said, there are numerous factors which may come into the mix to possibly help lessen the increase in costs.

For instance, you might require the same loan amount, which may now be a **smaller percentage figure against the increased value of your home.** This could open up the better rates for you, particularly if the previous deal was a high loan-to-value one.

It could also pay dividends to **consider the wider marketplace,** as your existing lender may no longer be the most suitable choice. Or, it may conversely deliver reassurance for you that you're best to stay where you are.

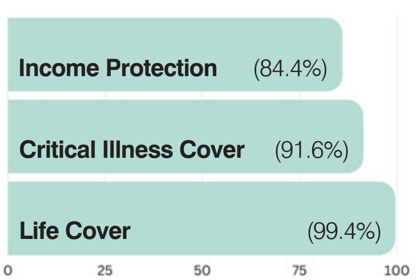
Additionally, by taking our professional advice, we'd **fully assess the suitability of the options on offer** - and not solely focus on the interest rate element.

Please get in touch to hear more.

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

Surely, it's better to have **protection cover** and hopefully not need it, than to need it and not have it!

Protection insurance may feel like an unnecessary expense, but not to the beneficiaries of the £13m paid out each day for life cover, or the 41,760 that were able to claim in one year, when suffering a critical illness or being off work long-term due to an illness or injury.*



Percentage of Claims paid out

*(Source: *Association of British Insurers, 2022 Claims Statistics, released May 2023)*

» Many of us are wise after the event, but consider this regarding those of normal working age:

- 109,448 UK adults, aged 18-65 died in 2020 - that equated to 1 every 5 minutes.
- Currently, over 2.5 million people in the UK are off work long-term due to sickness.

(Source: Office for National Statistics, Mortality data for 2020; Labour market overview, June 2023)

Plan for the worst...

In these difficult times, it's fully understandable that your funds may have to be directed to meet other needs. But, it's also important to consider the financial needs of your family, should the worst occur. Or, to have access to some degree of income stream to help you get back on your feet, should the unexpected happen.

Moving on up...

With property prices continuing to fall, year-on-year, this may present an additional benefit for the **First-Time Buyer.** *(Source: Nationwide, House Price Index, October 2023)*

» Those looking to buy their first home still face numerous challenges to make that first step into property owning.

That said, this step was taken by over **362,000 first-time buyers last year,** and accounted for more than half (52%) of all the home purchase loans that were taken out.

Move from renting

Renting is not always the worst-case scenario, as it works well for many, particularly if they want to have less ties, or perhaps would like to test out an area, or even a relationship! And there will be fewer hurdles to jump, compared to the strict borrowing criteria set out by the lenders.

For others though, renting is seen as 'dead money', as you're not building up, nor benefiting from investing money, time and effort in your own property. Additionally, the rental payments might even be higher than the expected mortgage costs.

Key facts

For this group, renting would be a stepping stone whilst they get their finances (and deposit) in order.

- In fact, the issues surrounding **the deposit - which was £62,470** on average, in 2022 - means that it's no surprise that the average age of a first-time buyer tends to be around 32.
- And, possibly partly driven by the need to put aside a sizeable deposit, **almost two-thirds (63%) now buy in joint names** (with two or more people named).
- Many, though, will benefit from access to the slightly better deals, as the **average deposit is about 21% of the property's value.**

(Source: Halifax, First-Time Buyer report, January 2023)

- Conversely, if only delivering a 5% deposit (£15,100, by comparison), the interest rate would be higher, and possibly more problematic to secure a loan in a falling house price market. However, it may help get you onto the ladder much sooner.

Talk to us

As for us, we can assist with your application, factor in any financial support from parents (or grandparents), consider any specific government help, identify areas to you might improve once we see your credit score, and then look for the most suitable deals.

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

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Are you Creditworthy?

A credit score is designed to try to predict your future behaviour. You can 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

By talking to us, once you have your results, we'll have a better feel for items which have scored you down and where you might get a more favourable response for credit.

Supporting the 4.4m+ SELF-EMPLOYED

More than three-quarters (77%) of Self-Employed workers, say that being self-employed makes it more difficult to be approved for a mortgage. *(Source: Pepper Money, Specialist Lending study, Winter 2022/23)*

» If you're Self-Employed this can deliver many advantages in terms of the lifestyle you lead, the way you're remunerated, and the opportunity to grow your income stream, **but the ease of obtaining a mortgage isn't one of them!**

In short, the automated processes set up to assess the risk for both the lender and the borrower are largely formulated with the 'regular income-earning' employee in mind.

By contrast, a self-employed worker may have variable and seasonal income streams, plus utilise a range of remuneration methods such as - a regular (but possibly low) salary, dividend payouts, director loans, share of net profit, and so on.

Part of the problem is possibly the lack of resource, and enthusiasm from lenders to find a specific solution that works well for the self-employed.

In the midst of all this, it's also an understandable annoyance to the self-employed, that an employee is likely to have all their income eggs in one basket, but could lose that job the day after getting a mortgage!

Conversely, if a self-employed worker faced a financial downturn, it's quite possible that they would either have alternative plans in place, or immediately look to other options to help rebuild their revenue stream.

A sector comprised of over 4.4m workers

Around 1 in 7 of all workers are self-employed - making it a sizeable marketplace. Furthermore, the **resourcefulness of this sector is not lost on lenders.**

So, the tide may already be turning, with some lenders taking a more favourable view, and easing their criteria restrictions.

(Source: Office for National Statistics, Labour market overview, June 2023)

Variable income streams

One example of this is that a number of lenders appear to be more accepting than before of variable income streams, including elements such as bonuses, commission, or overtime.

Justifying variable income streams will also be an issue for the wider working community, as well as the self-employed. This is because many salaried employees could also secure a sizeable part of their income stream from bonuses, or have the opportunity to work overtime to help boost their income.

If any of the above applies to you, then it's vital that you turn to us for advice, as we can sit down and go through the various options to consider, ahead of identifying the more amenable, and suitable lenders.

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GET **PROTECTED...**

■ Financial concerns resulting from a loss of income caused by personal injury or illness is a worry for 46% of self-employed workers - up from 34%, before the pandemic hit.
(Source: The Exeter, Challenging Times survey, August 2022)

■ The self-employed worker is likely to be more exposed financially should they not be earning, so it makes sense to consider the three main protection offerings; life, income protection and critical illness.

■ With regard to Income Protection cover, many self-employed (and contract workers), mistakenly believe that they'll never qualify for this - which is designed to pay out a monthly income for a successful claim.

This is generally not the case and, in fact, this insurance is possibly even more important for this group, who are unlikely to have employee benefits, such as sick pay.

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

Do you have adequate protection cover in place?

PROTECTION Check-up

In the same way that you'll insure your home, car, pet, and mobile, make sure you apply the same principles to both yourself, and your immediate family.

As part of a check-up of your existing (or potential) Protection needs, we can also assess what's on offer from your employer, as well as any limited support (if any) from the state.

Protection cover options

As part of this process, we'd highlight that there are numerous protection products out there to help provide cover should you suffer a life-threatening illness, or a mental health problem, and be off work for a long period of time.

This issue impacts a sizeable number of people when you consider that over **2.5 million are currently off work due to long-term sickness.**

(Source: Office for National Statistics, Labour market overview, June 2023)

If you have **Children**

Family Income Benefit is an alternative (or additional) type of life cover to consider, if you have young children.

Whilst you may have normal life cover in place to help pay off the mortgage, what about the everyday items such as food, clothing, utility bills, fuel and other expenses such as a new car, or holiday?

This is where Family Income Benefit could help, as this generally lower-costing product is designed to pay out until the children have grown up. This means it's normally taken out over a limited time period of, say, a 10-20 year term.

If you claimed in the first year, then it would provide a monthly payment until the end of the policy period. Alternatively, if you claimed with two years left, then it would simply pay out for the last two years, or not at all, if there was, fortunately, no claim made.

The likelihood of these events occurring will be more likely in the working lifetime, than an early death, so it's important to consider some degree of cover. One option might be a stand-alone **Income Protection** policy, or perhaps consider **Critical Illness Cover** as an add-on to **Life Cover.**

These policies are important, as they will deliver a degree of funding (if your claim is successful), giving you valuable breathing space whilst you focus your energies on recovery, ahead of returning to work.

Life Cover

Conversely, if you die, **you get no second chance** to rebuild your finances for the family, so it's essential that you also consider having an element of this cover in place.

The likelihood of death up to the middle part of your working lifetime is less likely, but it's still a possibility when you consider that, on average, around **50 people die every day, who are aged 18-44.**

(Source: Office for National Statistics, Mortality data for 2020, released January 2022)

Trusts

Once you set up life cover, it will be beneficial in most cases to place it in Trust. This should help to ensure that at a bad time for the family, the beneficiaries will see a swift payout.

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

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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.

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■ 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.**

■ **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: 01782 346 491 Email: mail@synchromortgages.co.uk Web: www.synchromortgages.co.uk**