

# Mortgage & Protection news

The newsletter from Elsby Associates Limited

**NEW SERVICE** – we are now also authorised and able to advise on **Lifetime Mortgages / Equity Release**, so please feel free to mention this to family and friends, should this be relevant for them.

A by-product of the pandemic is that many of us have given thought to the future set up of our home and the way we live.

» This could encompass where we live (with some leaving the cities), or the amount of space we need (as many will continue to work from home, full or part-time). Or perhaps a combination of both.

## House Price growth

Possibly surprising for some, in this period of economic uncertainty, the average UK house price has actually risen 10% annually. (Source: Nationwide, House Price Index, September 2021)

It's largely been driven by government tax incentives, and buyer demand for a different type of home, against a limited number of available properties.

Whilst house price growth could ease as we move towards the end of 2021, rises can be beneficial for current homeowners. For example, it may give access to better rate deals, if borrowing against a property that's risen in value over recent years.

## Mortgage Rate War

For those considering to either expand the footprint of their current home, or looking

# The way we plan to Live

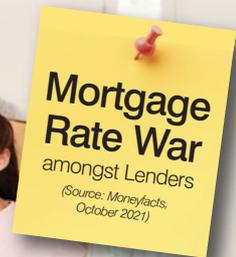
to move, then there's an additional benefit in play; a **price war** amongst lenders.

This has generated a number of deals at less than 1%. These are primarily (but not exclusively) for those that need to borrow 60% or less Loan-to-Value (LTV) of the home's value. However, even those needing 90% or 95% LTV could still be looking at best deal rates of around 2% and 3%, respectively. (Source: Moneyfacts, 7 October 2021)

These deals may be particularly enticing, but it's not just the headline rate that needs to be considered, it's the associated fees, and lender requirements. That's why it makes sense to **take professional advice** to identify the most suitable route for both your needs and financial circumstances.

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



## Remortgaging

If you're moving towards the end of your deal period, then you ought to be considering what's on offer from your existing, or alternative lender(s).

To do nothing would mean you revert to your lender's Standard Variable Rate, which may be in the realms of 4.41%.

The following are comparative average fixed rates across the board (to give you a general feel). For those that tick all the boxes, rates are on offer at just under 1% for largely 60% LTV.

- **Coming off a 2-year fixed deal**
  - Average rate 1 Oct. 2019 = 2.45%
  - Average rate 1 Oct. 2021 = 2.25%

- **Coming off a 5-year fixed deal**
  - Average rate 1 Oct. 2016 = 3.02%
  - Average rate 1 Oct. 2021 = 2.55%

(Source: Moneyfacts, 1 October 2021)

## The way we plan to Live (contd)

Continued from page 1 →

### When it's gone, it's gone(ish)

As ever, each mortgage deal has a limited tranche of money set against it. These days, it seems, the deals aren't on offer for too long. In fact, the average amount of time a product offering is out there is currently just **27 days!**

(Source: Moneyfacts, 1 October 2021)

This doesn't mean that other comparable deals won't be there from the same lender, or others. But you could waste time chasing deals, and that may affect your credit rating if going after too many, across different lenders.

For our part, **we know where to look**, as we are doing this every day for our clients. Additionally, to help that process, and for you to be able to move swiftly, it makes sense to have all of your financial details to hand, such as bank statements and payslips.

Lenders continue to apply stringent controls on the 'evidencing of income' and

'affordability'. Plus, they may now want to know if you were furloughed, or recently took a mortgage payment holiday.

### Find out your Credit Score

This is also really useful information to have, as it would provide us with further background knowledge. A popular site you could use is **checkmyfile.com**, as that brings together findings from all the rating agencies.

If your score is not great, there may be ways to improve it. This can involve amending incorrect details, or making sure you pay your bills on time. And sometimes, it's just simply about ensuring you are on the electoral register.

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

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## Quick 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

Here's how to use the mortgage payments calculator: A £100,000 mortgage over 30 years, charged at a 2% interest rate would cost 100 x £3.70 (for Repayment) = £370 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.

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



It's not as if the desire to own a property is not there. In fact, 49% of 18-34 year-olds surveyed said that homeownership is now more important to them as a result of the pandemic.\*

(Source: \*Santander, Life after lockdown, June '21)

### Raising the Deposit

52% of this age group also set out that the deposit was their biggest hurdle.\*

However, Government intervention with the **Mortgage Guarantee Scheme** has helped bring about more products (across the board) that only require a 5% deposit. Others may be able to benefit from the Bank of Mum & Dad (plus Grandparents) to help deliver the deposit.

# First-Time Buyers

It's a contradiction for many aspiring First-Time Buyers that what they'd pay in mortgage repayments is often less than their monthly rent, yet it remains difficult to get onto the property ladder.

### Rising House Prices

The demand for more space afforded by larger properties has helped drive up prices. So, you may find that if you're after a smaller home, it might be more achievable than you first thought to get a foothold on the property ladder.

Additionally, there's the Government's

**First Homes Scheme** for new-build properties (in England, although other initiatives may exist elsewhere in the UK). For eligible purchases, it's designed to provide homes at a minimum discount of 30% against the market value, resulting in both a smaller deposit and mortgage loan. However, the discount off the price remains with the property when you sell it on.

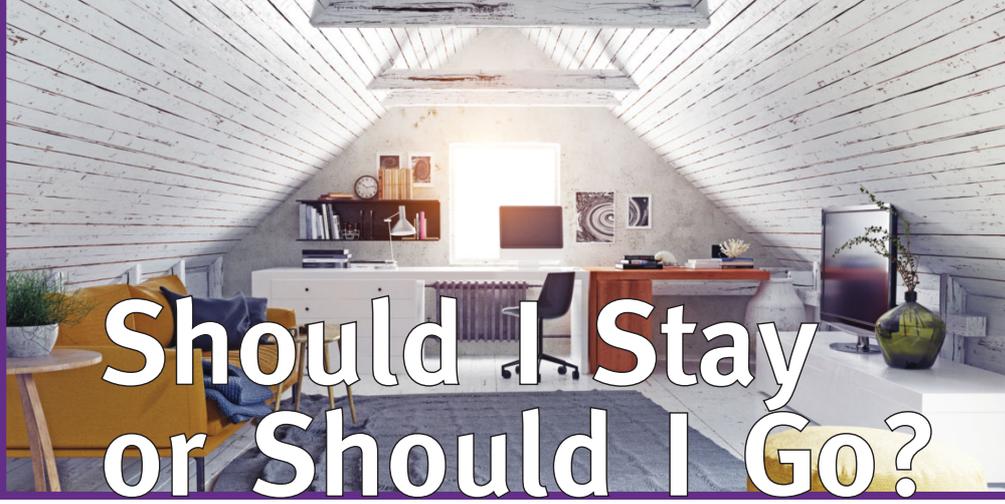
### Type of Mortgage you opt for

Another way of reducing the monthly mortgage payments is to take out a mortgage over a longer term, such as **paying back over 35 years**. Although, this means that you will be paying more money back, if extending the payback period.

However, over your lifetime of property ownership, you're not committed to stay with the same deal - with homeowners often having a number of different mortgage deals across the years.

**The process can be confusing and that's why around nine out of ten First-Time Buyers are likely to use an Adviser.**

(Source: Accord Mortgages, July 2021)



# Should I Stay or Should I Go?

The last 18 months or so may have made you realise that you need more space for both you and your family, with some preferring to stay put, rather than move.

» The upside of this is that your current property may have increased in value compared to when you took out your existing mortgage deal. If that's the case, then it may be easier for you to borrow extra money (if needed) to help create the space you want.

## Property price rise

For example, if you're coming to the end of a 5-year mortgage deal, the average house price in September 2016 was about £206,000, by September 2021, it's around £249,000.

*(Source: Nationwide, House Price Index, September 2021)*

If you borrowed 70% LTV in 2016, then by 2021, you'll be under the 60% LTV threshold, which opens up the better deals. Or, you can take a view that you are able to meet the borrowing criteria, and are comfortable with a 70% LTV deal - thereby releasing around £30k+ of extra funds.

Of course, taking on extra borrowing may not be the most suitable route for you.

Additionally, if you remortgage before the end of the deal period there may be financial penalties.

So, you have to weigh up all of this, along with the alternative costs attributable to moving home to secure the space you need.

## Build up or build out?

This would be the most obvious way to secure the extra living space you need. And whilst it's likely that there are planning and building regulations to consider, the planning aspect can be less onerous these days if you remain within an accepted footprint, and keep your neighbours onside.

## Extension

This could create an extra room for an office, or simply be an extension to the kitchen area to help create more space.

**Rough costs:** according to mybuilder.com,

a standard 6m x 4m extension could cost in the region of £26-34,000.

## Loft conversion

This can create a master bedroom with en suite, be used as an office, or simply deliver an extra room(s) to ensure everyone isn't always on top of each other!

**Rough costs:** according to mybuilder.com, this costs on average £40,000.

## Wide-ranging renovations

Alternatively, you may want to do more, such as extend and update your kitchen, rewire, new heating system, new windows, and so on, to ensure the home layout works as best as possible for you.

**Rough costs:** according to Checkatrade, against a 3-bed property, this might cost in the realms of £38-74,000.

## Does it add value?

Generally, it should. With an extension, or loft conversion, you are delivering more space, which should, understandably, make your home more marketable.

*(Sources: mybuilder.com website & Checkatrade website, both September 2021)*

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# Protection Insurance

Rather than hunkering down following Covid claims, the Protection industry has responded positively and continues to pay out most claims, and deliver innovative products for today's lifestyles...

With the ongoing impact of the pandemic, it's important to consider ways of insuring yourself against early death, or the inability to earn an income due to a serious illness, mental health issue or injury.

In fact, according to Royal London, 15.9m people now feel more financially vulnerable than they did back in March 2020. *(Source: Royal London, August 2021)*

The warning that 'your property may be repossessed if you do not keep up

repayments on your mortgage' possibly resonates with them. Those renting also need to ensure they can stay in their home.

So, don't just view **Protection Insurance** as a small issue to consider when taking out a mortgage deal. Instead, get in touch with us to see if what you have currently works well for you, or if there are areas where you feel exposed.

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

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)*



# Make it Work for Yourself

The **Self-Employed** may feel hard done by in recent times. Some would have missed out on Government financial support, and mortgage lenders have been applying stricter lending criteria. So, it's no wonder that many feel they'll never own a home, or will face issues when seeking a new mortgage deal.

» At the outset of the pandemic, much of this was true regarding the ability to secure a mortgage. More recently, 47% of **self-employed workers** still feel deterred from even applying for a mortgage because of their self-employed status.

*(Source: The Mortgage Lender, August 2021)*

But, let's not forget that the self-employed sector comprises around 4.3m workers. Whilst that's down on the 5m at the start of the pandemic, it's still a sizeable part of the total workforce (around 13%). Of those remaining, many would have been nimble enough to adapt their offering in light of the economic climate.

*(Source: Office for National Statistics, Labour market overview, September 2021 release)*

Also, the **resourcefulness and size of this marketplace is not lost on lenders**, who seem to be easing some of their criteria restrictions. For example, some lenders appear to be more accepting of variable income streams such as bonuses, commission, or overtime, than before.

Although some are still unlikely to accept an application from anyone who received the Self-Employment Income Support Scheme (SEISS) within the last three months.

Plus, there's the revamp of IR35, which may impact upon

affordability issues for some. If you find yourself in this situation, then it would be prudent to also have a chat with your accountant.

## Rates on offer

For those that can meet the affordability criteria required by lenders, they may benefit from the current interest rate price war. There are headline-grabbing 'under 1%' deals, largely for the 60% Loan-to-Value (LTV) borrowers. But the competition amongst lenders has meant that even at the low deposit deals for 90% and 95% LTVs, it's still showing low average rates for 2-year fixed rate deals of 2.56% and 3.32%, respectively. With slightly higher rates for the 5-year deals. *(Source: Moneyfacts, 1 October 2021)*

## Insuring your income stream

In addition to having **Life Cover** insurance to help pay off the mortgage, and to support your family, you should protect your income stream too, if you were unable to work through an injury or serious illness. This could come in the form of a **Critical Illness** policy (as a stand-alone plan, or an add-on to life cover), and would pay out a tax-free lump sum on a successful claim.

Alternatively, there are **Income Protection** plans, which are designed to pay out a monthly income for a successful claim.

Yet, many self-employed and contract workers mistakenly believe that they'll never qualify for this insurance protection. That is generally not the case and, in fact, this insurance is possibly even more important for the self-employed, who are unlikely to have employee benefits, such as sick pay.

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

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## LIMITED GOVERNMENT SUPPORT

- The majority of self-employed people (57%) said they had no government support in the last 12 months.
- Of those that did receive support, 28% received a grant, with less taking up the various loans on offer.
- A small percentage (9%) had used the furlough scheme for their staff.

*(Source: The Mortgage Lender, September 2021)*

The continuing impact of the pandemic has reinforced the importance of protecting your income stream through insurance cover such as an **Income Protection** policy.

# Protect your EARNINGS...

» Across a working lifetime, consider this: the average annual income of about £30,000 (discounting inflation), could equate to about **£1,400,000**. This amount is almost six times the current average value of a UK home - circa **£249,000**.

Yet many will willingly insure their home, plus 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, September 2021 release; Nationwide, House Price Index, September 2021)*

## Are we Invincible?

Most of us will feel that being off work long-term, and unable to earn an income is unlikely. But it has happened to 2.15 million people in the UK, who are currently off work due to long-term sickness.

*(Source: Office for National Statistics, Labour market overview, September 2021 release)*

## Probability calculator

To get a feel for your own particular circumstances, why not use this probability calculator which sets out the 'broad' chances of you being off work for a period of time, along with suffering a critical illness, or dying. Simply enter your age, gender and smoker/non-smoker information into - [www.riskreality.co.uk](http://www.riskreality.co.uk). Of course, it's only topline data, and personal circumstances will differ.

It shows, for example, that there's a **33% chance** for a 35 year-old, non-smoking, male to be off work for 2 months or more from now up to a retirement age of 68. For a female, the comparable figure is **41%**. If viewed as a couple, then the risk of it occurring to just one of them rises to **60%**! And, once you factor in that they are also smokers, the comparable figures are 41%, 51% and 71%, respectively. Whilst these results are merely a guide, it shows that bad things can happen.

## If it happens to you...

The upside (unless you're a contractor or self-employed) is that you may, initially, benefit from ongoing financial support from your employer, if you were off work due to an illness, or injury. However, it's only likely to be there for a defined period. Plus, there's limited state support to try to access.

In which case you need to look at how you might cover any income shortfall, and this is where you could plan ahead and have an **Income Protection policy** in place.

If you benefit from employer support, then you could defer



payouts from the Income Protection policy for that period of time, and face lower premiums as a result.

Income Protection 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.

Alternatively, if a 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).

## Funding your insurance cover

You may be surprised that by simply cutting back on some of life's small luxuries (odd takeaway, cab ride, cafe coffee, magazine, etc), you can swiftly set aside the premiums for an insurance plan that protects your income stream.

Even better if you are one of the **two in five** Brits that have actually saved money across the pandemic period - a combined **£5.8bn per month** in 2021.\* Part of these savings could be sensibly directed to paying the premium for an Income Protection plan.

*(Source: \*LifeSearch, Health, Wealth & Happiness, Q2 2021)*

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

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

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.

■ The contents of this newsletter are believed to be correct at the date of publication (October 2021).

■ 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 766 662 Email: [info@elsbyassociates.co.uk](mailto:info@elsbyassociates.co.uk)  
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