Essentially Mortgages

Your mortgage matters – don't put your head in the sand

Mortgage approvals hit 13-year high

Getting financially fit for the new norm

Q4 2020

- Bank of Mum and Dad now joined by the Bank of Son and Daughter
- You could still save thousands on Stamp Duty
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Your mortgage matters – don't put your head in the sand

Recent estimates suggest that as many as one million borrowers have lapsed or will lapse onto their lender's expensive default mortgage rate this year. It makes sound financial sense to make sure you are on the most competitive deal for your circumstances.

Inertia doesn't pay

If your current tracker, fixed rate, or discount mortgage deal has ended, or will end this year, you may find you're automatically switched onto your lender's Standard Variable Rate (SVR) and could be paying way over the odds, perhaps without even realising. SVRs do not normally offer the most competitive rates and with SVRs usually linked to a percentage above the bank's base rate, the rate can rise and fall, making anyone on an SVR vulnerable to interest rate rises in future.

Take advantage of record low mortgage rates

After two Bank of England rate cuts brought the Base Rate down to 0.1% earlier this year, mortgage rates have remained at record low levels, so it makes sense to shop around to see if you can get a better, more cost-effective mortgage deal.

Don't delay

It can take a couple of months to complete the remortgage process, so it makes sense to act sooner rather than later. Don't worry if you're currently locked into a mortgage deal that has exit charges; you don't have to wait until it has come to an end, as we can help you find a deal before your lock-in period finishes.

Good advice pays

Remortgaging won't be right for everyone, but we can advise you on whether it's a suitable option for you, explaining the costs and any potential implications along the way. In a complex environment, getting good advice can really pay – so get in touch and we'll guide you through the process.

Bank of Mum and Dad now joined by the Bank of Son and Daughter

It's been a tough year for many sectors of the economy. For the housing market (and its participants) there is no exception. Many aspiring buyers are borrowing from parents to achieve their dreams of homeownership. Although not a new trend, it is a growing one.

According to research[1], nearly one in four (23%) of house purchases will be backed by the Bank of Mum and Dad (BoMaD) this year (up 4% on 2019), with parents, family and friends gifting an average of £20,000 per purchase. It's likely that BoMaD will be needed more than ever in the future, with 24% of buyers reporting they're now more reliant on support from family and friends following the pandemic.

Overall BoMaD lending plummets

Despite the above picture, BoMaD is actually expected to lend far less to prospective homebuyers this year due to the temporary closure of the property market and the resulting fall in transactions. It's expected that family and friends will lend £3.5bn to facilitate property purchases this year – little over half the £6.3bn forked out last year.

Children are returning the favour

With the coronavirus crisis also hitting older generations financially, research[2] suggests that, since 23 March, the 'Bank of Son and Daughter' has withdrawn an estimated £2.75bn from savings accounts to shore up parents struggling to make ends meet – an average of £700 per account.

A balancing act

With the pandemic continuing to impact our finances, seeking advice has never been more important. Whether you are a parent or child, it's only natural to want to help your loved ones, but it's important to understand whether you can afford it and how much you can spare.

[1]Legal & General, 2020
[2]Direct Line Life Insurance, 2020

You could still save thousands on Stamp Duty

If you're a prospective homebuyer, then it's not too late to take advantage of the government's Stamp Duty holiday tax break for England and Northern Ireland, which is due to end on 31 March 2021.

Currently, the threshold at which no tax is paid on property purchases is £500,000, up from £125,000 – meaning that, until March next year, eight in 10 buyers will pay no Stamp Duty on their purchase.

Move quickly

With time running out, here are some top tips for accelerating your home purchase:

- Get a mortgage in principle
  Secure a mortgage in principle while you're house hunting, so you're ready to go as soon as you find a property
- Don't haggle
  Haggling too hard over price won't endear you to the seller. In the current market, they're likely to have many other buyers willing to pay the asking price
- Get the right help
  Enlist a solicitor and surveyor who will be ready to assist you as soon as you've found your property.

Come to us

We understand that time is of the essence, so come to us and we'll waste no time in finding the best mortgage for you.

Help to Buy scheme extended

Building delays caused by the pandemic were threatening to affect the plans of thousands of first-time buyers and home movers in England before the government announced an extension to the Help to Buy equity loan scheme.

Deadlines explained

Previously, the building deadline for new homes was 31 December 2020. This has been extended by two months, giving builders until 28 February 2021 to complete construction. The final date for legal completion of purchase will remain at 31 March 2021, although those who had a property reserved before 30 June this year and have experienced 'severe' build delays, could potentially extend completion to 31 May 2021 (reviewed on a case-by-case basis).

History

Since the scheme started on 1 April 2013, a total of 272,852 properties have been bought through the scheme in England, with around 82% of these purchases made by first-time buyers.

Help to Buy is changing

The new government Help to Buy scheme, which replaces the current scheme in England, is still scheduled to come into effect on 1 April 2021, running until March 2023, with no plans for further extensions. Regional property price caps ranging from £186,100 in the North East to £600,000 in London are included in the new Help to Buy scheme and it will be restricted to first-time buyers only.

Similar schemes operate in Scotland, Northern Ireland and Wales.

Mortgage approvals hit 13-year high

August saw mortgage approvals soar to 84,700, a sharp increase on July's figure of 66,300 and the highest monthly figure seen since October 2007[3].

The surge in approvals has been attributed to several factors, including the government's temporary Stamp Duty holiday on the first £500,000 of a property's price (England and Northern Ireland) and record low interest rates.

"Stronger than anticipated rebound"

Estate agent Savills[4] has revised its mainstream residential market forecast as recovery has exceeded expectations. Despite a weak economic backdrop, experts say changes in people's behaviour, working habits and aspirations as a result of the pandemic have led to increased demand. Longer term expectations suggest the Stamp Duty holiday will keep the market buoyant throughout Q1 2021, although recovery into Q2 and beyond will largely depend on the wider economic picture.

No let-up for first-time buyers

Those looking to get on the property ladder for the first time have suffered during the pandemic, with lenders hastily withdrawing the majority of their 90% and 95% loan to value (LTV) mortgages during lockdown as uncertainty prevailed. This has led to one in five first-timers delaying their property purchase, while four in 10 say lockdown has made it harder to get onto the property ladder[5]. The Prime Minister has announced his intention to develop plans to allow more low deposit mortgages to be made available. Ministers are scoping plans to allow more mortgages to be offered with a 5% deposit. We will keep you up to date with developments.

Finding the right mortgage

Whether you're a first-time buyer or not, getting the right mortgage isn't always easy. That's why our professional advisers are here to help. We can assess your finances and help you find the mortgage that best suits you.

[3]Bank of England, 2020, [4]Savills, 2020, [5]Zoopla, 2020

Borrowed more in lockdown? Protect your business

Even before millions of businesses took a financial hit due to coronavirus, over half of UK companies had some form of debt, owing an average of £176,000 each. Despite this, just 20% had an insurance policy in place to protect them if they were unable to pay their debts[6].

Since March, however, businesses have borrowed over £58bn through government-backed coronavirus loan schemes, according to Treasury figures[7] – meaning that UK businesses are now more heavily indebted than ever.

Protecting your business

If you have taken on more debt to keep your business afloat during the pandemic, you're certainly not alone. If you didn't have an insurance policy in place prior to lockdown, such as a business loan protection policy, it's all the more important you do so now.

Business loan protection

There are several types of business protection, one of which specifically pays out if companies find themselves unable to repay loans such as commercial mortgages, business loans or director's loans. This could happen if, for example, one of the company's directors were to die or develop a serious illness. A business loan protection policy, therefore, takes the form of a life insurance or critical illness policy (or sometimes both), which will provide funds to repay the business' debts if the worst were to happen.

Businesses have borrowed over £58bn through government-backed coronavirus loan schemes

If you're a business owner, you may have used your own personal assets, such as property, as security for a business loan. If so, not only you, but your loved ones, could face financial hardship if you are not insured.

Keep your business safe

Many businesses have unfortunately lost their battle for survival this year – don't let yours be one of them. We can help you find a suitable policy that protects your business against the unexpected.

[6]Legal & General, 2018, [7]UK Treasury, 2020

Autumn Budget on the back burner

Chancellor Rishi Sunak has set out a series of measures aimed at halting job losses and stemming business failures as part of his Winter Economy Plan.

His statement, delivered in the House of Commons on 24 September, was a last-minute replacement for the planned Autumn Budget, which the Treasury had cancelled the previous day. It was a decision taken to focus efforts on dealing with the short-term economic problems caused by the pandemic.

The centrepiece of the Winter Economy Plan was a new scheme to replace furlough, running from 1 November. The Job Support Scheme will last for six months and see the government subsidise the pay of employees working for businesses that are operating but facing decreased demand. On 9 October, Rishi Sunak announced that the Job Support Scheme will be expanded to protect jobs and support businesses required to close because of local or national restrictions. And on 22 October, the Chancellor unveiled increased support for jobs and workers impacted by COVID restrictions. Under the revised scheme, employers will pay less and staff can work fewer hours before they qualify for extra financial help.

When announcing the Winter Economy Plan, the Chancellor stressed that the government's economic response to the pandemic was evolving and that his aim now was to cushion a painful adjustment to a new way of living and working. He did though, make it perfectly clear that his emphasis has firmly shifted to protecting *"viable"* jobs.

Number of interest-only mortgages continues to fall

Over a million pure interest-only mortgages were outstanding at the end of last year, 8.9% fewer than the previous year. With a further 54,000 interest-only loans due to mature this year, the total number of borrowers with this type of mortgage continues to fall[8].

Interest-only mortgages were very popular in the late 1980s and 1990s when interest rates were hitting highs of 14%.

This type of mortgage allowed borrowers to defer capital repayments and just pay interest each month. In many cases, they were linked to a separate repayment vehicle such as an endowment policy, projected (but not always guaranteed) to pay out the full amount needed, provided that premium payments were kept up until the matching policy and mortgage term ended.

Repaying the capital

Lenders require proof of how the borrower intends to repay the mortgage at the end of the term. Popular repayment methods include selling

Lenders are much more cautious about approving residential interest-only mortgages these days

your property and downsizing, selling investments and using savings. It's the lender's responsibility to ensure they are maintaining a credible repayment plan to repay the original loan. Lenders are much more cautious about approving residential interest-only mortgages these days.

[8] UK Finance, 2020

Getting financially fit for the new norm

Research in 2019 found that 22% of UK workers said they would be unable to survive financially for more than a month if their income stopped[9]. Unfortunately, for many in 2020, this scenario will have become a reality.

The pandemic has proved the ultimate stress test on many people's finances, showing how fragile their financial situation really is.

Improving your financial resilience

Now could be an excellent time to review your situation and plan for the unexpected to boost your financial resilience. Review your income and outgoings, particularly if your circumstances have changed, and clear any expensive debt as a priority. Some people will have found themselves in a fortunate position of being able to save more, due to reduced outgoings, so put these savings to good use.

If you're nearing the end of your current mortgage deal or are on your lender's Standard Variable Rate (SVR), the current low-rate environment could make it the perfect time for you to get a more competitive deal.

Similarly, a review of your protection needs will tell you if your current policies still provide you with a robust safety net. For you and your family, protection policies such as income protection, critical illness cover and life insurance should be considered. Even if you have existing policies, these may have been taken out years ago when your situation was very different and there is a risk that you may now be underinsured or paying too much for cover that isn't suitable.

Financial advice is more important than ever

If you think your plans may have been affected by changes to your circumstances, or you have any other concerns, please contact us. Our professional advisers are here to assess your needs and find the most suitable mortgage or protection product for your own individual situation.

[9]Royal London, 2019

Your coffee – or your life?

The average UK family spends nearly as much on our favourite breaktime beverages as they would on protecting their family should the worst happen.

According to the ONS Family Spending survey 2018-19[10], households spend an average of £6.50 per month on coffee and tea. In comparison, life insurance to protect your loved ones could cost as little as £5 per month (premiums do vary based on your circumstances and the level of cover required). With enough disposable income to spend £5.40 a week on takeaways and £8 on drinks out, it's clear that the average household could afford to take out life cover.

More affordable than you'd think

Nobody likes to think about the worst happening to them, and it's all too easy to push these kinds of things to the back of our minds as life gets busy. However, if the coronavirus crisis has taught us anything, it's that the unexpected can happen at any time. So, putting your mind at rest for as little as £5 per month may be the best move you could possibly make.

Finding the right cover for you

Of course, life insurance premiums vary according to a wide variety of factors, including your age, health and dietary habits. That's why we're here – to help you find the most affordable cover, so you know your family will be looked after when you're no longer here.

[10]ONS, 2020

Cold callers have been trying to take advantage of consumers

Rise in protection cold calls - beware

There have been reports of a rise in cold calls offering alternative protection policies, with telesales companies appearing to take advantage of an increased awareness of the importance of life and health protection due to the pandemic.

Cold callers have been trying to take advantage of consumers by telling them, for instance, that they work with all the major life insurance providers and are ringing to review their current policy. The cold caller is then reported to talk about recent changes, including in life expectancy, which means they can save you money. This leads them on to offering you a cheaper policy.

As we all know, cheapest is not always the best. Before making any changes to your protection policies, contact us.

Is your payment holiday coming to an end?

If you took out a payment holiday on a loan, credit card or mortgage because your income has been affected by the pandemic, you should be thinking about how to manage your finances when the payment holiday comes to an end.

Deadline of 31 October

If you already have a payment holiday arranged, you can apply to extend this for another three months, provided you apply before 31 October. If you have already had six months of payment holidays, your lender may suggest more suitable alternatives to a further payment holiday. If you have been making payments but are concerned about struggling over the next few months, 31 October is also the deadline to apply for a new payment holiday.

Consider other options

The payments missed during a payment holiday will be added to your outstanding balance, together with interest. This means that your monthly payments will be higher than before, so a further payment holiday may not be the best option. For overdrafts or credit card debts, you could consider a balance transfer, to move your debt onto a zero percent credit card deal, or perhaps onto a loan.

Tailored support for mortgage holders

The Financial Conduct Authority (FCA) has introduced new rules for mortgages, which means your lender should consider a range of support options, such as extending the mortgage term or allowing reduced payments. Get in touch to discuss your options.

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.