Summer 2023

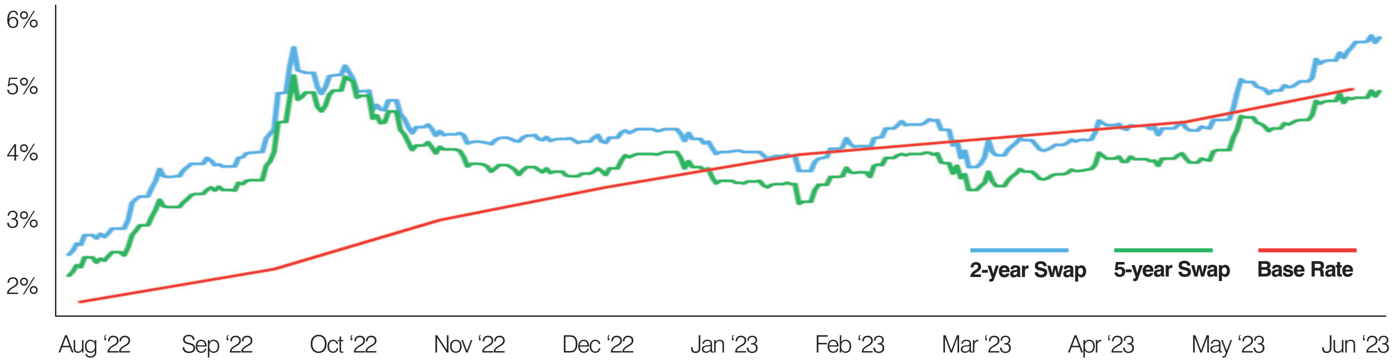
Mortgage & Protection news

The newsletter from XL Finance Ltd

XL Finance
mortgage and protection advisers

Rate Rise!
Bank of England Base Rate rises to
5%
13th increase in a row
(Source: Bank of England, 22 June 2023)

Here for YOU...



Converging movement of 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, and dropped to 3.25% at the start of February. Since then, it's risen steadily, ahead of the recent spike where it's around 5%. *(Sources: Chatham Financial, Sterling Overnight Index Average (SONIA) Swap rates, to 30 June 2023; *Bank of England Base Rate, to 22 June 2023)*

Mortgage rates have been a lead story in the media in recent times. After the turmoil surrounding the mini-Budget back in September 2022, a sense of calm had returned and some deal rates were falling as we moved towards May.

Since then, a number of factors combined, which resulted in lenders pulling products at short notice, and then re-pricing them upwards.

The **Base Rate rise to 5%** was the latest event to impact upward pricing. This is the 13th consecutive Base Rate rise, and it's now at its highest level for 15 years.*

The key issue has been the inflation figure. **This has remained stubbornly high, at 8.7%** in the latest figures out in June.

(Source: Office for National Statistics, CPI, June 2023)

High inflation influences the Base Rate, as the Bank of England's target inflation figure is 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

The high level of inflation, along with market sentiment, affect Swap rates which have also been on an upward curve as shown in the chart above. And **Swap rates influence the pricing of fixed rate mortgage deals.** If Swaps are rising, then fixed rate deals may rise too.

Where do we go from here?

This is the tricky question. One factor that was previously pushing mortgage rates down was a desire amongst lenders to fight for market share, with some accepting lower margins. This currently isn't the case.

There is also an expectation that there may be further Base Rate rises to help tackle inflation.

However, as the chart shows, there were gloomy predictions after the mini-Budget,

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Here for YOU... (contd)

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with Swaps rising sharply, but subsequently they did drop over the ensuing months.

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 again trigger 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.

The fall in house prices in June was broadly stable, with an annual decline of 3.5%. This was similar to the 3.4% yearly fall recorded in May.

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 £19,000 - about an 8% 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 Q2 1993, to about £262,000 in Q2 2023.** That's more than a fivefold increase.

(Source: Nationwide, House Price Index, June '23 & Q2 '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 it may impact you...

The latest 0.5% rise in the Base Rate to 5% 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, the 0.5% rise in Base Rate may add a further £47.43 per month to payments, on top of previous increases.

■ Standard Variable Rate borrowers

On average, the 0.5% rise in Base Rate may add a further £30.28 per month to payments.

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** (see page 4) to reinforce the support on offer for those that may have payment issues.

(Source: UK Finance, June 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, 4 July 2023 = 6.47%

■ 5-year fixed rate deal
- Average rate, 4 July 2023 = 6.01%

■ Standard Variable Rate (SVR)
- Average rate, 1 July 2023 = 7.67%

(Source: moneyfactscompare.co.uk, July 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)

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 2.55% on offer two years ago to about 6.47%.

If £100,000 had been borrowed, over a 30-year period, then the extra payments might be over £230 more a month.

(Source: moneyfactscompare.co.uk, 4 July 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.

Breakdown of Mortgage Borrowing

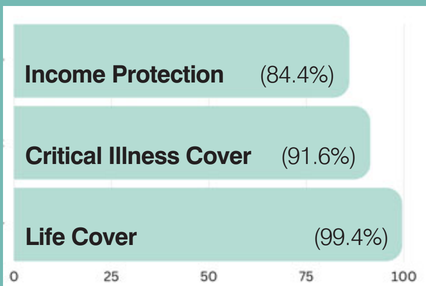
There are currently 8.5m residential mortgage borrowers, set out as follows:

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

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

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.

Reassurance for YOU

In June this year a **MORTGAGE CHARTER** was agreed between the government and the majority of lenders to help protect vulnerable residential mortgage borrowers, at a time of rising interest rates and with many coming towards the end of their Fixed Rate deals. *(Source: HM Treasury, 26 June 2023 release)*

» This Charter (which doesn't apply to buy-to-let mortgages) is intended to build on the help already in place for borrowers who may find themselves in difficulty. And formalises across the wider marketplace what might already be on offer, in part, by individual lenders.

Of course, those borrowers that can meet their payments should continue to do so, as this will always be the best course of action. However, for others, there is a fallback position with the signatories to this Charter (which represents over 85% of the mortgage market) agreeing to the following:

■ From 26th June 2023, **a borrower will not be forced to leave their home** without their consent **in less than a year from their first missed payment** (unless in exceptional circumstances).

■ With effect from 10th July, customers approaching the end of a fixed rate deal will have the chance to **lock-in a deal up to six months ahead.** They will also be able to manage their new deal and **request a better like-for-like deal with their lender** (if one is available) right up until two weeks before their new term starts.

■ A new deal between lenders, the FCA and the government permits customers, who are up-to-date with their payments, to:
- **switch to interest-only payments for six months** or
- **extend their mortgage term to reduce their monthly payments** and give customers the option to revert to their original term within six months by contacting their lender.

All of these options can be taken by customers, who are up-to-date with their payments, without needing a new affordability check or affecting their credit score. Affordability, though, will need to be checked if borrowers wish to permanently convert to an interest-only mortgage, or where the mortgage term is proposed to be extended beyond the borrower's expected retirement date.

Further support in place from ALL lenders...

Slight duplication here as to what's in the Charter, as this covers the offering from all lenders.

■ Anyone worried about their mortgage repayments can contact their lender for help and guidance, **without any impact on their credit file.**

■ Support for customers, who are up-to-date with payments, to switch to a new mortgage deal at the end of their existing fixed rate deal, **without another affordability check.**

■ Lenders will provide well-timed information to **help customers plan ahead,** should their current rate be due to end.

■ Lenders will offer tailored support for anyone struggling. This could mean **extending their term to reduce their payments,** or **offering a switch to interest-only payments.** It could also encompass a range of other options like a **temporary payment deferral** or **part interest-part repayment.**

If these issues apply to you, or you want to be aware of the help that's on offer, then do talk to us as well.

MORTGAGE **OVERPAY?**

■ Whilst no-one would happily want to divert extra money to paying the increased amount of interest on their mortgage, this step may be more affordable for some.

■ For that group, an additional opportunity could exist.

■ If you're currently on a low fixed rate for a period of time, with comparatively lower monthly payments, why not consider overpaying on your mortgage?

■ This would deliver obvious benefits when you come to renew. Your outstanding mortgage amount will be lower, and it'll be less of a shock for your financial outgoings.

■ 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: 07753 748 780 Email: becki@xlfinanceltd.co.uk Web: xlfinanceltd.co.uk