Spring 2021

Mortgage & Protection news

The newsletter from HD Consultants

HD CONSULTANTS

Road to Recovery

The easing of restrictions and the roll-out of vaccines, means there's more to feel positive about, and that extends to the Property sector.

» Understandably, the last year or so has been particularly difficult, yet throughout this period both the **property** and **mortgage** sectors have been **open for business.**

And the ongoing environment of **low interest rates*** means that there continues to be a desire by many to buy that first property, buy more properties, or to look at remortgaging the existing deal.

This desire may have been fuelled by many of us reassessing how (and where) we live, in light of our changing working patterns and lifestyle choices. However, the impact of the pandemic has meant that it will be more problematic for some to raise the mortgage funds they need.

If you have a sound income stream, decent credit rating, and want to borrow a lower percentage against the value of the property, then there may be fewer hoops to jump through. Although, even here, it's still **important that you take advice.**

Others may benefit from, or fall into areas, such as:

Mortgage Guarantee Scheme

With a launch in April , this UK-wide scheme (largely relevant for **first-time buyers,** but also for **homemovers**) was announced in the March 2021 Budget. It's applicable for all properties under £600,000, and will open up **5% deposit mortgages** for those wanting to get their first, or next, residential property.

Additionally, there has been a return of 90% Loan-to-Value (LTV) mortgages.*

However, the overall lending criteria remains fairly strict, and interest rates are creeping up. *(Source: *Moneyfacts, 8 March 2021)*

Self-Employed

The key point to remember here is that about **4.4 million people are self-employed,** representing almost one in six of the total

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

BUDGET NEWS

Stamp Duty holiday extended

The current reduction in Stamp Duty has been extended to **30 June 2021.**

■ This means, for example, that **no Stamp Duty is paid** on purchases up to £500,000 in England & N. Ireland.

■ The standard rates will return in October, and to smooth the transition, a tapered amount of up to £250,000 will run between July-September. **First-Time Buyers** have a separate normal threshold set at £300,000, which would come back into play from July.

■ For those buying an 'additional' property, the normal 3% surcharge is added to the appropriate rate.

Furlough Scheme extended

Currently, 4.7m are benefiting from this scheme - where 80% of workers' salaries are being paid (for those hours not worked) - and this has been extended to September 2021.

■ Employers will contribute 10% in July and 20% in both August & September.

(Source: GOV.UK, Budget Statement, 3 March 2021)

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Welcome.... to this newsletter, which covers what we believe are some of the key issues of the moment that affect mortgage and protection products.

Road to Recovery (contd)

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workforce of around 28 million (of which 72% are in the private sector). *(Source: Office for National Statistics, Labour Force Survey, February 2021)*

Ultimately, lenders will not want to neglect (or penalise long-term) one-sixth of all earning workers, but this group has undoubtedly suffered over the last year or so.

The issue for lenders is that the income stream of the self-employed is less clear cut, and even more so in COVID times, meaning lenders want to:

- see if they are currently trading, or if there was any reduction in their self-employed income due to COVID-19.
- hear if they're in receipt of the Self-Employment Income Support Scheme, or a Bounce Back Loan.
- be told if any staff have been furloughed.
- see more recent bank statements, as the latest accounts aren't now deemed enough.

In short, mortgage providers are looking for proof that the business is viable, and to understand how the pandemic has affected the work and income of the applicant.

Furloughed workers

The Furlough Scheme has **topped up the wages of over 11m workers** since its launch in March last year, and there are still around **4.7m** receiving help. This scheme will now run until the end of September.

Whilst this has delivered a vital income stream for many, different lenders have their own criteria with regard to assessing income and affordability for furloughed workers.

Some lenders, for example, won't accept furlough income for their affordability assessment, or restrict the LTV offered, whilst others require that the applicant has either returned to work or has a fixed date to return. Furloughed applicants may also need to provide a letter from their employer confirming their basic salary, return to work date and any other terms of return.

Where we can Help

The problems faced in the marketplace have not been brought about by an economic crash, as in 2007/8, but by the initiatives undertaken to tackle the pandemic.

Basically, lenders want to lend, but it's more problematic to navigate a way through the lending criteria that's been set. This is not insurmountable, in most cases, and our professional advice can hopefully find a way through for you.

Do get in touch to hear more.

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.

Get PROTECTED NOW...

In 2019, in pre-COVID times, as many as 604,707 people died in the UK (that's more than 1 a minute). If this is not bad enough, in 2020 (as we encountered the pandemic) 690,439 died - an 85,732 increase!

(Source: Office for National Statistics, National Records Scotland, and Northern Ireland Statistics & Research Agency, actual 2019 figures & provisional 2020 data)

It'll never happen to ME!

Many of us think we're invincible and will live a long life with few health problems.

That, hopefully, will be the case, but COVID has sadly shown us that many families have experienced personal loss, or know of people who have died. And, beyond that, are aware of some that have suffered badly and been off work long-term due to the effects of the virus.

Whilst restrictions will now be in place to factor COVID into insurance companies Protection products, it's not just COVID that you need to consider. In a normal year in 2019, 605,000 people still died from a multitude of ailments, such as cancer, heart diseases and dementia & Alzheimer's.

Life Cover

If you don't already have this in place, or want to revisit your policy, it's essential that you consider life cover to deliver the financial security for those you may leave behind.

If nothing else, you should look at having in place enough life cover to help pay off your mortgage to ensure your family doesn't also lose the roof over their head. In most cases, it also makes sense to have your policy 'written in Trust', which should ensure a swifter payout to your beneficiaries.

Other Protection insurances

Imagine that you didn't die, but suffered a serious illness, injury, or mental health issue which meant you were unable to work (and earn an income) for a long period.

Whilst you may initially receive good financial support from your employer (and less so from the state), it's sensible to check if that's the case, and for how long.

It's for this reason that there are also **Income Protection** and **Critical Illness Cover** policies on offer.

The wide range of product options, and value-added support are improving all the time, so it's vital that you take advice. As with all insurance policies, terms, conditions and exclusions will apply.

Always there

Despite 2020 being a year where, at times, it seemed like the UK was closed for business, **676,500** mortgage deals were still taken up for property purchases, and **1,681,600** remortgages (or product transfers) were processed. *(Source: *UK Finance, Household Finance Review, March 2021)*

» The pandemic also threw up different ways of doing business, and for some clients, Zoom and Teams video meetings may be their preferred way forward.

Whilst there are still numerous bottle-necks in the mortgage application process for us to navigate, some of those processes have been improved by better use of technology across the board, which again should pay dividends in the future.

Although many have suffered financially, a sizeable number would have become unwitting savers (through no work travel, no restaurants, no overseas holidays, etc), which could be used for a deposit or to help reduce the amount of loan borrowed.

Don't sit on an SVR

One key piece of advice - unless there are mitigating circumstances - is not to remain on your lender's Standard Variable Rate (SVR) once you come to the end of your deal period.

As the following shows, your monthly payments could be substantially more! Yet, despite those larger payments, at least 1.2m residential mortgage borrowers, and possibly as many as 2m, are still on an SVR. *(Source: UK Finance, June 2020 statistics)*

2-year Average Fixed Rate = 2.57%
5-year Average Fixed Rate = 2.75%
Standard Variable Rate (SVR) = 4.41%

And, whilst rates are creeping up, do consider that these are the average rates. You might be able to secure deals that are around 1%-1.5% less. However, the best rates are for those that, for example, require a Loan-to-Value of 60% of less, and are remortgaging. *(Source: Moneyfacts, 26 February 2021)*

Stamp Duty

Currently, with no stamp duty being paid on residential purchases up to £500,000, that means there's a potential maximum saving of £15,000. In Q4 2020, 92% of all first-time buyers didn't pay any stamp duty, nor did 76% of homemovers.* With the extension to June 2021 for the £500,000 threshold, and then up to £250,000 until September, it might be something to consider.

Additional hand-holding

Whatever your situation is, we'll take a view of the wider marketplace rather than just what's on offer from one high street lender.

We will also endeavour to reduce the hassle of filling out forms and applications.

Plus, we can discuss the type of **Insurance Protection** that would be affordable and a suitable choice for your needs and circumstances. Ideally, to protect both your mortgage debt and your income stream(s).

Irrespective of whether you are new to property buying and protection insurance cover, or an old hand, do get in touch to see how we can help.

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Check your **Credit Rating**

Not being on the Electoral Register, or missing paying a monthly mobile phone bill can work against you, so do check and resolve any issues.

A credit score is designed to try to predict your future behaviour. So, those with a poor score may suffer, as can others who have no credit history at all!

Make sure you check your rating at one (or some) of the following:

■ **Checkmyfile** - Tel: 0800 086 9360
(it brings together 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

As every lender has its own 'perfect customer' profile, a rejection from one isn't necessarily a rejection from all. By talking to us we'll have a better feel for items which may score you down and where you might get a more favourable response for credit.

BUDGET NEWS

Self-Employment Income Support Scheme extended

This scheme will now run until September 2021, and encompass a fourth and fifth Grant payout.

■ So far, it has supported 2.7m people, and due to the timing of filing 2019-20 Self-Assessment tax returns, an additional 600,000 self-employed may now be eligible for support.

■ The fourth Grant payout will cover the February to April period, and will be worth 80% of three months' average trading profits. It would be paid in a single instalment and capped at £7,500 in total.

■ The fifth Grant would cover the May to September period, with the payout being determined by a turnover test.

(Source: GOV.UK, Budget Statement, 3 March 2021)

Return of the 95% MORTGAGE...

In the March 2021 Budget, the Chancellor announced the re-introduction of a **Mortgage Guarantee Scheme** to help buyers who only have a small deposit.

» This initiative should deliver reassurance to lenders, as the Government will compensate the mortgage lender for a portion of any net losses suffered in the event of repossession. The guarantee will apply down to 80% of the purchase value of the property (with the lender taking a small share of this overall risk, above the 80% level).

The benefit of this governmental support is that it'll give confidence to lenders to offer mortgage deals to those with a small deposit. This enables the return of 95% Loan-to-Value (LTV) mortgages, which virtually disappeared in the early stages of the pandemic, and will help to move more from Generation Rent to Generation Buy.

Additionally, this UK-wide scheme (with a £600,000 property price limit) is **not just restricted to First-Time Buyers** or **new-build homes,** markedly increasing the number of people for whom the scheme may be of interest. Particularly, when you consider that, according to Rightmove, around 86% of current properties up for sale fall under the £600,000 threshold. *(Source: Rightmove, March 2021)*

The scheme will launch across the UK in April (and is planned to run until December 2022). It's similar to the previous Help-to-Buy mortgage guarantee scheme, which closed to new loans at the end of 2016, a policy the Treasury said 'reinvigorated the market for lending at up to 95% LTV'.

THE KEY RULES

- The property must be purchased for £600,000 or less, and must be your primary residence (ie not a second home or buy-to-let property).
- Have a Loan-to-Value of between 91-95%.
- Be a repayment mortgage and not interest-only.
- Be taken out by an individual, or individuals, rather than an incorporated company.
- As with normal mortgage lending, you will still need to meet certain criteria, such as income verification, credit worthiness and affordability.

What it means for the borrower

From the borrower's perspective it won't be that different to getting a normal mortgage. For example, you might put down a 5% deposit and then borrow the remaining 95% in the form of a mortgage loan from the chosen lender.

For lenders, they'll see that providing funds to borrowers with small deposits carries less risk. However, the lender will have to 'buy' the guarantee and the Government has given lenders the freedom to set their own interest rates, so there are no guarantees that you'll get an attractive rate.

Plus - it's not the only route forward...

The scheme may have a positive effect on property prices (or, at least, lessen any price falls), which means it should deliver greater confidence throughout the housing sector. Albeit any property price rise may adversely affect the very group it's largely designed to support - the First-Time Buyer.

However, increased confidence in the marketplace should result in greater enthusiasm from lenders to offer more regular mortgage deals that only require a 5-10% deposit.

For some, there's also the possibility of support from the Bank of Mum & Dad (plus Grandparents), which could enable some borrowers to gain access to the better rates on offer, by providing a larger deposit.

As we are working with these issues day-in/day-out, we fully understand the options on offer, and how to best navigate them, so please get in touch.

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

House rules

Even though it's a difficult economic environment, with ongoing tenant payment concerns, there is still much out there for **Landlords** to be positive about.

» The Buy-to-Let sector saw its highest purchase activity in Q4 2020, since Q1 2016, with 22,500 loans taken out. Whilst much of this would have been driven by the reduction in Stamp Duty, there is some anecdotal evidence that Buy-to-Let house purchases may remain robust, with landlords expecting a return to 'normal' as the vaccine programme rolls out.

Additionally, the extension of both the Stamp Duty reduction and Furlough scheme can only help matters. With the latter possibly allaying some fears over facing missed rental payments.

(Sources: UK Finance, Household Finance Review & Paragon comment, March 2021)

Regional trends

Tenant demand reached a 5-year high during the final quarter of 2020, with nearly a third reporting increased levels. Although there were strong regional differences, such as 10% of landlords saying there was increased demand in London, and 58% said the same for the South West. *(Source: Paragon, February 2021)*

As for the average monthly rental income, this is still holding up across the UK, at £984 (up 3% year-on-year). Ten of the 12 regions showed an increase, with the exception of Northern Ireland and Greater London - albeit the average rental value for the latter was still £1,572 vs. an average of £840 for the rest of the UK (exc. London).

But for Greater London that figure was down 4.7% year-on-year - partly a reflection of how people currently want to live within a different property setting, and with many people not going into the workplace. *(Source: HomeLet Rental Index, February 2021)*

Consider your Remortgaging options...

As set out above, we've seen a recent surge to purchase new properties ahead of the end of the Stamp Duty reduction, initially planned for 31 March (now extended), despite the fact that Landlords still have to pay the 3% surcharge.

Ironically, it was this same surcharge that resulted in a higher volume of purchases ahead of its introduction back in April 2016, with a 5-year fixed rate being a preferred route for many. Five years on, lots of those deals have now been remortgaged (or will be). Whilst interest rates are edging up, the average 5-year fixed rate Buy-to-Let deal in March 2021 was still 3.41%, against 4.04% back in March 2016. So, if your deal period has come to an end, or if you simply want to see what's on offer, do get in touch.

(Source: Moneyfacts, March 2021)

Alternatively, you may be looking at other rental options, such as different regions, or looking at holiday lets. Although, as ever, there remains the fairly strict lending criteria, made even more so by the impact of COVID. For example, some lenders will now want to know if you've utilised support schemes such as the Self-Employment scheme, Bounce Back loans, or furloughed any staff.

So, do talk to us to see if we can identify (and hopefully secure) the most suitable deal for your needs.

There is no guarantee that it will be possible to arrange continuous letting of the property, nor that the rental income will be sufficient to meet the costs of the mortgage.
The value of your Buy-to-Let property and income from it can go down as well as up. You may also require advice on the legal and tax issues.
The Financial Conduct Authority does not regulate legal and taxation advice, and most Buy-to-Let mortgages.
HM Revenue & Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

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Reassurance for YOU...

The extension of both the **Furlough** and **Self-Employment** Schemes will give us some extra months to weather the storm, ahead of the vaccines hopefully starting to have a positive impact, and confidence returning to the economy. Currently, it's just a very expensive balancing act.

» There have been massive lifestyle and financial changes over the last year or so, some of which could even be quite positive.

£250 billion in Savings

According Andy Haldane, Chief Economist at the Bank of England, a consequence of household spending plummeting across three lockdowns means that we will have amassed around £250bn in savings by June this year! This equates to **20% of the amount households spend each year.** On top of this, he also feels that a significant number of companies may well have a war chest of cash, amounting to around £100bn.

When all of this is coupled with the rapid roll-out of the vaccination programme, the economy could be about to turn a corner, with enormous amounts of pent-up financial energy waiting to be released.

Increased Vulnerability

For many people though, 2021 will be a challenging year as they struggle to deal with bills coming in, insufficient savings and low, or non-existent earnings. Plus, just take a walk along the High Street to see the number of shops that have shut down.

According to the Financial Conduct Authority there are now **27.7m adults in the UK with characteristics of vulnerability,** such as poor health, recent negative life events, or low financial resilience. With regard to the latter, this is directly affecting around 1 in 4 adults (14.2m).

(Source: Financial Conduct Authority, Financial Lives 2020 survey, February 2021)

Our offering

We've been working throughout the pandemic and understandably have had to change the way we work, and how we interact with clients.

On the property front, it could be helping to deliver the mortgage funds for a move to a home that delivers more space, a home office, outside space; or a complete lifestyle change, resulting in a move out of the city to a quieter area.

In fact, this, hopefully, once-in-a-lifetime event is likely to have a long-term impact on where and how many of us live and work.

Protection insurance cover

Additionally, we are also conscious of the need to ensure you're protected with the most suitable insurance cover to meet your needs, and those of your family. Protection insurance is there for those life events you generally don't expect to happen, or at least not just now! But sadly, they do occur.

COVID, of course, has had a severe impact on our lives, but the chance of facing a serious illness, being off work long-term, and early death have always been a possibility. As we said earlier, even before COVID, over 600,000 people died in 2019.

And issues such as being off work long-term can also have a serious impact on your financial well-being. The Oct-Dec 2020 figure showed that 2.2 million people in the UK were off work due to long-term sickness. This is the highest figure in the last five years, albeit the rolling 3-month average since 2010 was always above 1.9 million. *(Source: Office for National Statistics, Labour Force Survey, February 2021)*

So, surely it's better to; ***'have something and hopefully not need it, than to need something and unfortunately not have it'.***

And ironically, it's often said that to help afford vital protection insurance cover; all you may need to do is simply cut back on the odd restaurant meal, a drink at the pub, a day trip, and so on, as it all adds up. Well, as these savings are likely to be happening, maybe now is the time to act!!

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