Spring 2024

Mortgage & Protection news

The bulletin from Modern Mortgage Solutions Ltd

MODERN
Mortgage Solutions

THE BUDGET
2% drop in NI rates for both employees and self-employed
(Source: HM Treasury, 6 March 2024)

Do TAKE ADVICE...

In 2024, mortgage intermediaries (such as us) are expected to account for 89% of all mortgage lending.
(Source: IMLA, December 2023 release)

Over the last couple of years, many of us have had to hold back from implementing plans such as house moves, or undertaking major property renovations.

The improving climate in 2024 may spur some of us on to put in place those plans.

Of course, for the **1.6m borrowers who will be remortgaging in 2024*,** that positivity may wane slightly when they come to remortgage onto (what's likely to be) a higher interest rate. For example, those borrowing £100,000 over 30 years might see their monthly payments jump by almost £200.

*(Sources: moneyfactscompare.co.uk, 2-year fixed rate comparison, March 2024; *UK Finance, August 2023)*

So why the positivity?

A number of factors have come together to create a more encouraging environment.

A reducing level of inflation; a hold on the Bank of England's Base Rate rises; annual UK house prices actually showing an increase and a renewed enthusiasm amongst lenders to compete for your business.

Mortgage deals on offer from Lenders

Let's focus first on this element. We've had a period where there's been a price war amongst lenders. This has helped to push down the rates on offer. However, that's cooled and currently **we're largely seeing deals on offer that are being pulled and re-priced upwards.**

Part of this is down to the **impact of Swap Rates.** This is a term you may not be familiar with, but it's Swaps that have a big influence on the pricing of **fixed rate mortgage deals.**

The rate for Swaps had been falling since the middle of last year. Hence the improved deals that were on offer at the start of 2024.

However, due to various market factors, Swaps are currently on a slight upward path, and for some that may translate to higher borrowing costs.

(Source: Chatham Financial, Swaps data, March 2024)

The second element is that we're in a marketplace where **year-on-year mortgage lending fell** 28% in 2023, and it is expected to be a further 5% lower this year.

(Source: UK Finance, December 2023)

This contraction of the marketplace has fuelled enthusiasm amongst a large number of lenders to fight for market share.

The combination of these factors is why

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Do TAKE ADVICE... (contd)

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we're seeing a state of flux in the deals on offer.

This issue alone is reason enough to turn to us to help make sense of it all.

But we offer so much more

Not only are we up-to-speed on all the aspects mentioned above, but we can deliver support in the following areas too:

- **There at the outset.** Do talk to us early in the process, such as **6 months before your current deal period ends,** and also ahead of looking to purchase a home. This is because we can provide pointers on what you may be able to borrow, in light of what's on offer from lenders. At the same time, we can consider the affordability issues you may face, plus factor in how creditworthy you may be.

  Additionally, **once we take up a deal rate on your behalf** (within 6 months of the existing one coming to an end), **we can still switch it to a better rate** (on a comparable plan) from the chosen lender. This option is there up until the commencement of your new mortgage deal, which means you can lock-in a deal early, and then benefit should rates improve.

  Conversely, with some rates rising, you may want to lock-in early, should deals increase in the next few months.

  The ongoing monitoring of deal rates is an important factor.

- **Identify the deal that meets your needs.** To achieve this, we would **look at the wider marketplace.** For existing borrowers, the lender that offered them the most suitable deal, 2, 3, 5 years back, may not be the one to turn to this time round.

  Also, the fact that we undertake the legwork to look elsewhere, may simply deliver the reassurance that you should remain with your existing lender.

- **First-Time Buyers.** 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 rising costs, as landlords may pass on their extra cost of borrowing. If this prompts someone to consider purchasing their first home, then we can deliver the advice they need.

- **We'd liaise with others on your behalf.** This covers, for example, the lender, solicitors, estate agents, and surveyors.

Whatever your situation, we'd fully assess the suitability of the options on offer. And you can take comfort from the fact that we operate in this sector day-in day-out, plus have the qualifications and expertise to deliver advice that meets your needs.

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.

KEY INDICATORS TO CONSIDER

Property Prices

Look away if you're trying to get onto the property ladder, but for those who are homeowners the gloom and doom about a sizeable drop in property values didn't really materialise. In February 2024, the annual property price across the UK rose by 1.2%, and month-on-month house prices increased by 0.7%. *(Source: Nationwide, House Price Index, Feb. 2024)*

And if you want to get a feel for house price sales in your own local area, you can check out the following:
gov.uk/search-house-prices *(for England & Wales)*
scotlis.ros.gov.uk *(for Scotland)*
finance-ni.gov.uk *(for Northern Ireland)*

Inflation

Back in October 2022 annual inflation stood at a recent high of 11.1%. It's now down to 4%, and moving nearer to the Bank of England's target figure of 2%. A lower rise in costs can only be a positive development for most. *(Source: Office for National Statistics, CPI, 14 February 2024)*

Base Rate

One of the primary drivers for a move in the Base Rate, is to help keep control of inflation. Across the 2022/23 period there were 14 consecutive rises in the Bank of England's Base Rate to do just that. Whilst we're yet to see a drop, it's now been held at 5.25% for the last four meetings. *(Source: Bank of England, 1 Feb. 2024)*

Be Protected

- in your working lifetime

During this period, it's possible that over a quarter of men (26%) may be off work for 2 months or more, and this increases to over a third of all women (37%).

*(Source: *Royal London, based on a 30-year-old non-smoker, with a planned retirement age of 65, released January 2024)*

Figures such as the above will make you think.

Whilst it's important to have **Life Cover** in place, should the unthinkable occur, the chance of dying across the working lifetime is only about 4% for men and 3% for women.*

Low percentages, maybe, but 4% of those currently in employment in the UK does actually equate to about 1.3m people!

That said, the possibility of not being able to work for a lengthy period is also a concern. In this respect, there are currently 2.8m off work due to long-term sickness. And that's why you should also consider an **Income Protection** plan. *(Source: Office for National Statistics, Labour market overview, February 2024)*

Funding Protection cover

We recognise that household budgets continue to be under pressure, and that's been exacerbated by higher mortgage borrowing costs.

So, it's understandable that some will feel that the 'Protection Insurance' conversation could be kicked down the road.

But ironically, the pressure exerted by funding those higher mortgage costs, and rising cost-of-living expenses, actually reinforces the importance of having some measure of protection insurance in place now.

For some, it might be viewed as tomorrow's problem, but it could happen today!

Find the extra £s

With a Cost-of-Living crisis, it is quite likely that you've already looked at cost-cutting.

Whilst we don't expect you to give up all of life's little luxuries, cutting out just one unit each week of the items below, for example, could **save around £195 each month!**

Treats	£ Cost/unit (est.)
Soft drink	1.50
Snack	1.00
Magazine	2.25
Coffee (takeaway)	3.50
Pint of beer or lager	4.00
Glass of wine (175ml)	4.25
Taxi	8.00
Cigarettes (pack of 20)	12.50
Takeaway meal	8.00
Total	**= £45.00**

So, why not take a look at the box item to see where savings could be made, and then utilise some of that money to help fund the cost of a monthly insurance premium.

And for a detailed discussion about your protection needs, please get in touch.

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

BUSY PERIOD FOR REMORTGAGING

Not only are there 1.6m residential borrowers whose fixed rate deals are coming to an end in 2024, but there are also around 240,000 fixed rate deals ending for those in the Buy-to-Let sector. *(Source: UK Finance, Aug. 2023 & Feb. 2024)*

Here are the **average residential fixed rates. Better deals will be on offer,** such as for those requiring a 60% (or less) loan against the value of their property.

- **2-year fixed rate deal**
  - Average rate, 1 Mar. 2024 = 5.76%
- **5-year fixed rate deal**
  - Average rate, 1 Mar. 2024 = 5.34%
- **Standard Variable Rate (SVR)**
  - Average rate, 1 Mar. 2024 = 8.18%

(Source: moneyfactscompare.co.uk, Mar. '24)

Whilst there are rate fluctuations amongst Lenders to reflect Swap movements, others may still want to be more competitive in order to build market share. The one thing that is sure, is that for the foreseeable future, the sub 2% deals are a thing of the past.

The options for homeowners

Obviously, it's best to avoid going onto the lenders Standard Variable Rate at the end of the deal period.

Instead, we can discuss identifying an alternative 2, 3, 5 or more years Fixed Rate deal. Which could be with either your existing lender, or elsewhere. Conversely, do consider Tracker Rate deals (with no tie-ins) should you want flexibility, although some already on Trackers may now be looking to Fix. Additionally, you may want to alter the amount borrowed. Either because you require additional funds, or wish to reduce the loan amount owed.

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

THE SPRING BUDGET

Despite widespread market speculation, the **Spring Budget** delivered limited support for both the property market and the mortgage borrowing sector, but did focus on some key tax issues.

» According to the Office for Budget Responsibility, the **UK economy will grow by 0.8%** in 2024, which is a step in the right direction. And, as for **inflation,** it forecasts that this should drop to around the target rate of 2% this year - another positive.

(Source: Office for Budget Responsibility, Economic & Fiscal outlook, March 2024)

And, according to the chancellor, **day-to-day public spending** will rise by 1% higher than inflation, on average, over the next parliament, as confirmation that spending levels will not be cut. Of course, there'll be an election in between.

And here are some of the key tax announcements:

National Insurance

Building on the 2 percentage point cut to Employee National Insurance in the Autumn Statement, the chancellor announced a second 2p cut from 10% to 8% from April. Taken together with the previous reduction, this means the average worker earning £35,400 a year will be over £900 better off annually.

The chancellor also set out tax cuts for the self-employed, having reduced Class 4 NICs from 9% to 8% in the Autumn Statement. There was a further 2p cut to Class 4 NICs to 6%, meaning the average worker earning £28,000 will be £650 better off compared with last year.

Income Tax

With the chancellor focussing on NI, the income tax personal allowance thresholds remained as is, and will continue to be frozen until April 2028. This means that millions of people will end up paying more in tax, as their pay goes up.

Property tax relief

Multiple Dwellings Relief (applicable to England and N. Ireland) will be abolished from June. The Furnished Holiday Lettings tax regime will also be abolished (from April 2025), raising £245 million a year, with the intention of making it easier for local people to find a home in their community.

Capital Gains Tax on property sales

The higher rate of Capital Gains Tax (CGT) on property will be cut from 28% to 24%, from April 2024.

High Income Child Benefit Charge

In future, this will be administered on a household, rather than an individual, basis by April 2026. And, along with increased thresholds, there will be benefits for the families this applies to.

Alcohol and Fuel duty

The main rates of fuel duty will be frozen again until March 2025 with the temporary 5p cut also extended. This would save car drivers around £50 this year, and £250 since the 5p cut was introduced - a £5 billion tax cut.

And the six-month alcohol duty freeze announced in the Autumn Statement will be extended until 1 February 2025. This would save consumers 2p on a pint of beer, 10p on a bottle of wine, and 33p on a bottle of spirit.

Both initiatives will, no doubt, also have a positive impact on inflation.

(Source: HM Treasury, March 2024)

HM Revenue & Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

Help for First-Time Buyers?

■ With regard to First-Time Buyers (in England & N. Ireland), there was no mention in this Budget of the better Stamp Duty threshold rates continuing beyond March next year.

Buying your First Home

With an Election on the horizon, there's even more talk about building extra homes to assist the **First-Time Buyer.**

» In addition to the support from government schemes, there is also real, and immediate, help from some of the parents (and grandparents) of those looking to get onto the property ladder.

Plus, there's a pragmatic approach being taken by first-time buyers too, where two (or more) people are clubbing together to obtain their first home. According to Halifax*, this represented almost two-thirds of all first-time buyer mortgage completions in 2023.

Moving on from renting

Whilst there are positives to renting - such as the flexibility to test out an area (or relationship), and fewer financial questions to answer/justify - for many, it's seen as 'dead money'. This is because you're not building up, nor benefiting from investing money, time and effort into your own property. Additionally, the rental payments might even be higher than the expected mortgage costs.

Bank of Mum & Dad

We recognise that for a sizeable number it's not going to be an option, but for those who can help, this is what 2023 brought about:

- 318,400 property purchases were supported by the Bank of Mum & Dad.
- The average gift (or loan) was over £25,000, equating to £8.1bn of support, in total.
- And this resulted in over half of under 35s, who recently bought a home, receiving financial help.

(Source: L&G, 2023 Bank of Mum and Dad research, November 2023 release)

Within this mix there's also the support from the Grandparents. They too may delve into their savings & investments (or even access their property wealth) in order to see their grandchildren benefit within their lifetime, and possibly when financial support is most needed.

Providing a deposit

This is one of the biggest stumbling blocks. In 2023, the average deposit was £53,414, equating to around 18.5% of the purchase price. And that's in an environment, where the average cost of a home for a first-time buyer fell almost 5% from the 2022 peak.

This percentage deposit will obviously open up the buyer to better rates than those who are looking at deals at around a 5% deposit. Of course, to save up the average deposit percentage takes time, meaning it's no surprise that the average age of a first-time buyer is around 32 - and that's broadly reflective for all of the UK.

However, despite the deposit (and affordability) hurdles to overcome, the first-time buyer still represented 53% of all home purchase loans in 2023.

*(Source: *Halifax, First-Time Buyer report, January 2024)*

Talk to us

As for us, we can assist with your application, factor in any financial support from parents (or grandparents), and assess how you stand on meeting the lender's affordability criteria - which varies amongst the lenders.

We'd also consider the various schemes on offer from the government, and balance that against the alternatives out there in the general marketplace.

And, ahead of all this, it would be beneficial if you could obtain your credit score.

Here's one service you could try that brings together your results across most rating agencies:

- **Checkmyfile - Tel: 0800 086 9360 - www.checkmyfile.com**

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

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

2024 for LANDLORDS

Landlords, as ever, are a pretty resilient group, and that's why the Private Rented Sector remains a sizeable marketplace encompassing almost 20% of the UK housing stock (circa 5.5m properties).
(Source: English Housing Survey, 2022-23, released December 2023 - showing 4.6m PRS properties in England, and then a pro-rata calculation for all of the UK)

» It's understandable though, that landlords enthusiasm for this sector might have waned in light of all that's been thrown at them over recent years - tax changes, increased regulations, and now higher fixed deal rates for those remortgaging this year. Yet whilst some may be leaving this sector, there are still positives to consider.

Demand remains. Almost two-thirds of landlords surveyed (63%) reported that demand continues to rise from tenants.
(Source: National Residential Landlords Association, Q4 2023, February 2024 release)

Average rental take is still healthy. Across the UK the average monthly rent was £1,260 (up 7.5% on Jan 2023), with sizeable regional variations. The highest return was Greater London at £2,081, with the rest of the UK averaging £1,059, and the North East delivering the lowest return at £655. *(Source: Homelet Rental Index report, January 2024)*

The Spring Budget

The Multiple Dwellings Relief (applicable to England and N. Ireland) will be abolished from June, and the Furnished Holiday Lettings tax regime will be abolished in April 2025.

On a positive note, the higher rate of Capital Gains Tax (CGT) on a property sale will be cut from 28% to 24%, from April 2024.
(Source: HM Treasury, March 2024)

If your deal rate is ending this year

With around 240,000 fixed rate deals for landlords coming to an end this year, we're here to help you through this process.
(Source: UK Finance, February 2024)

LIMITED COMPANY STATUS

According to Paragon Bank, three-quarters of landlords (74%) who intend to purchase a new rental property in the next year will do so under a Limited Company structure, as opposed to paying income tax as a private landlord.

Buying as a Limited Company offers a number of tax benefits. It allows landlords to deduct mortgage interest from company income and pay tax at Corporation Tax rates, rather than an individual landlord's personal income tax rate.

The structure can also offer more favourable mortgage financing options. Paragon said that most lenders set interest coverage ratios at 145% for higher-rate taxpayers, whereas Limited Company applications require a ratio of 125%. They can often get higher loan amounts too.
(Source: Paragon Bank, September 2023)

However, it won't be the most suitable route for all, so do speak to your accountant and solicitor regarding the tax issues, and property structures. And we're there to give an overview, and to assist with sourcing suitable deals.

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.

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.

Did you know that there's around 375,000 new cancer cases in the UK every year, and **half of those survive for 10 years or more.** And whilst 175,000 die each year from heart and circulatory diseases, there are **7.6 million living with it.**

(Sources: Cancer Research UK, British Heart Foundation, 2024 website data)

CRITICAL ILLNESS Cover

» This highlights the importance of ensuring you have some sort of **Critical Illness** protection in place should you suffer a serious illness such cancer, heart attack or stroke, and then survive. And these days, the plans may encompass a far wider number of conditions, such as the loss of a limb, Multiple Sclerosis, Parkinson's, and Alzheimer's/Dementia.

Tax-free lump sum payout

If your serious illness is specified in your policy, then you may be one of the nine in ten that have their claims met each year (91.6% in 2022). *(Source: Association of British Insurers, 2022 Claims Statistics, released May 2023)*

Whilst you may survive, it's highly unlikely that you'd make a swift return to work, which could create concerns regarding your finances. Particularly if you have additional healthcare costs, or home renovation needs to reflect your changing circumstances.

Innovations

Critical Illness Cover has seen a great deal of enhancements over the years:

- The number of health conditions covered has increased significantly (in some cases more than a hundred).
- Additional and partial payments have been introduced. The advent of partial payments, for example, for less serious conditions has probably been one of the most welcome developments in this sector. This means that clients may still be covered, when in the past their diagnosis could have resulted in a declined claim, due to the condition not being deemed to be serious enough.
- Also, the introduction of enhanced payments may allow the claimant to receive an additional or higher payout if they are diagnosed with an illness that has a bigger impact on their life than expected.

Sadly, this is a reality for many families whose lives have been turned upside down by illness.

Of course, if you're employed, you may have the buffer of a period of disability cover as an employee benefit. After that, you may have to fall back on state benefits of limited value.

Also, don't just think that this should only be a concern if you're much older, as the average age of critical illness claimants across insurers is around late 40s to early 50s, with cancer being the main reason for claiming.

What do you need?

You'd decide the level of cover you require at the outset. Perhaps you may want to have enough to pay off the mortgage, or alternatively you may opt for less cover (meaning a lower premium too), but still have enough to see you through the initial couple of years as you recover.

Critical illness cover can be taken as a stand-alone policy, or as a bolt-on to a life insurance plan. The policies will vary with regard to the illnesses covered, and in some cases it could also include cover for your children up to age 18-21 (if applicable), within a specified payout limit.

Please get in touch to hear more...

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

■ 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: 020 8787 5225 Email: info@modsols.co.uk Web: www.modsols.co.uk