

# Essentially Mortgages

Mortgages in times  
of rising rates

---

Cost of living prompts  
equity release surge

---

Steps to sell with success

---



Q4 2022

- ▶ Stamp Duty reduction
- ▶ How income protection can brighten your winter
- ▶ Couples choose subscriptions over insurance

Quilter  
Financial  
Advisers

# In this issue

<i>Cost of living prompts equity release surge</i>	3
<i>Stamp Duty reduction</i>	3
<i>50-year mortgages for a foot on the ladder</i>	4
<i>Steps to sell with success</i>	4
<i>Locking into longer mortgage deals</i>	5
<i>Protection insurance payouts – on the up</i>	5
<i>Cancelling life insurance could be a costly mistake</i>	6
<i>Age 50+ mortgage use changing</i>	6
<i>How income protection can brighten your winter</i>	7
<i>First-time buyer deposits keep rising</i>	8
<i>Couples choose subscriptions over insurance</i>	8

## Mortgages in times of rising rates

*With inflation expected to remain above the Bank of England's (BoE's) target deep into 2023, interest rates are forecast to rise further still. What can mortgage holders expect for the coming year?*

### Up and down

The effect rising rates have on you depends on your mortgage type. Those with a tracker mortgage will have already seen their rate increase directly in relation to Bank Rate, meaning costlier repayments as soon as the BoE makes a change.

Standard variable rates (SVRs) also rise (or fall) in response to the BoE's decisions. But SVRs can change at any time because they are set by the lender rather than simply tracking Bank Rate.

### Shielded – for now

Fixed rate mortgages, on the other hand, are protected – for now. If you are on a fixed rate, that means you won't see any changes in your mortgage until your current deal ends.



At the end of your fixed-rate deal, you will automatically be switched to your lender's SVR or a reversionary rate, which could prove expensive. So, it's a good idea to consider your options well before the end of your fixed term.

### Should I remortgage now?

If you're in the last six months of your current mortgage deal, it might be worth locking into a fixed rate mortgage now. By locking into a mortgage deal before your current one expires you can avoid rolling onto your lender's default rate. However there may be a penalty for leaving your current deal early.

We can help find the most suitable option for your unique circumstances.



# Cost of living prompts equity release surge

*Equity release has gained in popularity over recent years, with products enabling homeowners over the age of 55 to access equity locked up in their homes while still being able to live in their property. With the cost-of-living squeeze upon us, new research suggests that many homeowners are choosing to release equity to help them with rising costs.*

According to analysis<sup>1</sup> of H1 2022 data from Canada Life, 20% of equity release applications were made by customers looking to bolster their everyday living costs. While a further 38% were looking to raise money to pay for home improvements and 50% wanted to use equity release to clear their outstanding mortgage.

### Record highs in Q2

Equity release lending figures hit record highs in the second quarter of the year, reaching £1.6bn - representing a 26% year-on-year increase, marking the fourth consecutive quarter of near record figures.

According to the Equity Release Council (ERC)<sup>2</sup> nearly 12,500 new plans were taken out by over-55s between April and June 2022 alone. David Burrowes, Chairman of the ERC, commented on the data, *“The fact that hundreds of homeowners are now choosing to release equity each day, based on detailed financial and legal advice, is significant progress from the days when the market was considered an under-developed niche rather than the mainstream option it has become.”*

He continued, *“Raising awareness of how modern equity release products work alongside other financial solutions is essential, so people who are asset-rich but cash-poor can benefit from the wealth they have built up over their lifetimes and also support those around them.”*

### Time to talk it through?

Equity release isn't right for everyone, there are positives and negatives, and careful consideration is vital to ensure it is a suitable option for your individual circumstances. To find out more about your options, we can help. Equity Release will reduce the value of your estate and can affect your eligibility for means tested benefits.

<sup>1</sup>Canada Life, 2022, <sup>2</sup>ERC, 2022

## Stamp Duty reduction

*On 23 September, the government outlined a series of tax cuts and measures aimed at boosting economic activity, most of which have since been reversed.*

One surviving key tax announcement was a reduction in Stamp Duty Land Tax (SDLT) in England and Northern Ireland. The residential nil-rate threshold was raised from £125,000 to £250,000, with immediate effect, and First Time Buyers' Relief was increased from £300,000 to £425,000. There was also an increase to the maximum amount that an individual can pay for a home while remaining eligible for First Time Buyers' Relief, from £500,000 to £625,000. As SDLT is devolved in Scotland and Wales, the Scottish and Welsh governments will receive funding through an agreed fiscal framework to allocate as they see fit.



# 50-year mortgages for a foot on the ladder

*The government is contemplating ultra-long mortgages as a way to boost homeownership, with 50-year terms currently under consideration.*

## **Borrow more**

Longer mortgage periods would allow potential homeowners to borrow larger sums, which means they would be able to afford higher-priced homes. With the average house price having climbed by 15.5% in the year to July<sup>3</sup>, greater affordability would provide a huge boost to millions of people struggling to get a foot on the housing ladder.



## **Repay more**

There is a price to pay, however. Calculations show just how expensive these deals could end up. One estimate<sup>4</sup> for buying an average house on an average long-term fixed rate deal (6.19%) puts monthly repayments at £1,140. Over a 50-year term, this would mean £472,984 paid in interest alone!

## **Longer terms**

There is already a clear trend in favour of longer mortgage terms. Indeed, the average loan term taken out by a first-time buyer hit 30 years in June<sup>5</sup>, a record high. This is nearly five years longer than the average loan term two decades ago.

<sup>3</sup>ONS, 2022, <sup>4</sup>Barrows and Forrester, 2022, <sup>5</sup>UK Finance, 2022

*The average loan term taken out by a first-time buyer hit 30 years in June, a record high*

## Steps to sell with success

*If you're planning to sell your house, you already know there's plenty to think about and get done; that's no surprise, but make sure you don't neglect the small details, as they need time and attention too. Seemingly minor adjustments can make a real difference to how a property is perceived and, ultimately, priced. Before listing your house for sale, these finishing touches are sure to benefit:*

### **Define spaces**

Over the years, rooms in your home can evolve from their original purpose. Intentional or not, this is pretty common, but when it comes to selling, clarity is king. So, for example, if your spare bedroom has morphed into a dumping ground or storage depot, converting it back to

its original purpose will showcase the space properly and help market the house more effectively.

### **Depersonalise and ditch any quirks**

Removing some of the more personal objects from around your home is a good idea. Depersonalising, without removing every object entirely, will make it easier for prospective buyers to imagine themselves living in your house. Also taking away any overly quirky features will stand you in good stead.

### **Appearances matter**

If you've been putting off any DIY tasks, now's the right time to get them done. By presenting a well-maintained property, you're highlighting to prospective buyers that the house has been well cared for, which is reassuring, giving them confidence that they're unlikely to uncover any nasty surprises. In contrast, if buyers notice obvious DIY shortfalls, it's likely they will factor the costs of carrying these out into their offer price.

### **The finer detail**

At the end of the day, having someone on your side to help with the big decisions can help you stay in control of every little detail. Get in touch today to see how we can help!

## Locking into longer mortgage terms

*In a fast-changing mortgage market, many homebuyers are being drawn to the certainty provided by fixed-rate deals.*

With Bank Rate and mortgage rates increasing, you can see why existing homeowners and first-time buyers would choose to opt for longer-term fixed mortgages in a bid for stability in the face of continually rising rates.

While historically, borrowers would pay more to fix into a longer-term rate, the price gap is closing and in some circumstances is disappearing altogether.

### **It's best to consider all the options**

We're here to find the most suitable mortgage for your needs.



## Protection insurance payouts – on the up

*Protection policies can help give you peace of mind by making sure you can meet financial commitments and know that your loved ones will not face hardship if you suffer misfortune of a specified kind.*

Last year, claims paid out under protection insurance totalled £6.8bn<sup>6</sup>, a second consecutive yearly high, with over £18.6m paid out every day in life insurance, income protection and critical illness claims. It was the third year in a row where the overall average individual payout increased, rising by 9% year-on-year to reach £14,994. The average critical illness claim payment was £67,500 and £61,944 for term assurance.

### **Claims pay out**

In 2021, 98% of individual and group claims were paid, with 'non-disclosure' cited as the main reason for the 2% of rejected claims. This is when a customer fails to provide information about something that might have influenced the insurer's decision to provide cover.

One emerging trend was a 40% rise in claims for musculoskeletal conditions last year, which could be

linked to a higher number of people working from home in unsuitable conditions. There were 20% fewer claims relating to mental health in 2021, although mental health claims were still above their 2019 level.

### **More than just a number**

Behind the key data is a vast number of families given support when they needed it most.

<sup>6</sup>ABI and GRiD, 2022

*Behind the key data is a vast number of families given support when they needed it most*



## Cancelling life insurance could be a costly mistake

*We all want to make the most suitable decisions for our family – and cutting back on unnecessary spending is a wise financial move in challenging times. Stopping life insurance payments, however, could be very costly.*

### **Think twice**

Experts are warning of the important role life insurance plays in protecting financial wellbeing. Indeed, insurance is not about short-term rewards; it is a long-term investment in your family's future.

That's because life insurance pays out as a one-off sum to support your dependants, ensuring your loved ones will not suffer financial hardship when you are no longer here to provide for them.

### **Cheaper younger**

If you cancel your life insurance then decide, at a later date, to take out a new policy, this is likely to come at a higher cost. Payments for a set level of cover are determined by your age and health condition so the longer you wait, the more you are likely to end up paying.

### **All the options**

If you are struggling to make payments, we can outline your options and check if your current cover still matches your needs.

## Age 50+ mortgage use changing

*The use of mortgages for borrowers aged fifty plus is changing. Recent data<sup>7</sup> has shown that the proportion of mortgage borrowers aged fifty and over, using mortgages from Hodge Bank to buy a home has doubled since 2017. Just over a quarter (26%) of its 50+ borrowers currently use mortgage funds to purchase a home, double the percentage (13%) doing so five years ago.*



In 2017, over a fifth (21%) of Hodge mortgage borrowers aged 50+ used the funds to consolidate debt, versus just 7% in 2022. Home improvements are popular with 50+ mortgage borrowers, with 14% motivated to take out a loan for this reason, while 9% are using the loan to make gifts to family members, compared with 15% in 2017. Interestingly the age of borrowers using 50+ mortgages has reduced since 2017; currently the average age is 65, versus 73 five years ago. One feasible reason could be the fact that people have re-evaluated their property needs, with the pandemic giving them a clearer view of their priorities, as older borrowers look to achieve their goals sooner.

<sup>7</sup>Hodge, 2022



# How income protection can brighten your winter

*After a scorching summer, a challenging winter beckons, as the global economy suffers from the effects of Russia's war on Ukraine. On cold, winter nights, the importance of protection becomes increasingly clear.*

## **Safety net**

Two thirds of Britons<sup>8</sup> say their financial situation makes them feel stressed, anxious or depressed. Income protection can help by providing crucial support and peace of mind. Knowing that you and your loved ones will not suffer hardship if you face a major loss of income helps millions of people sleep more soundly at night.

## **Support when it's needed**

The same study also found that a third of people feel they don't have anyone to turn to for advice when concerned about money. As well as financial support, protection providers can include emotional support networks as part of their policies.

## **Look after yourself**

A recent survey<sup>9</sup> showed that twice as many people insure their pets as themselves. This desire to protect those around us is admirable. But looking after number one also helps ensure the security of your dependants – including furry friends.

*Income protection can help by providing crucial support and peace of mind*

## **Could you survive on state benefits?**

If you are unable to work and are eligible for statutory sick pay, you could receive £99.35 a week from your employer. Given that the average household spends £587.90 each week<sup>10</sup>, it is very likely this won't be enough to keep on top of your outgoings.

Moreover, statutory sick pay only lasts for the first 28 weeks of illness. Income protection is the best way to cover your expenses for as long as you need it.

<sup>8</sup>Income Protection Task Force, 2022,

<sup>9</sup>Cirencester Friendly, 2022, <sup>10</sup>ONS, 2022



# First-time buyer deposits keep rising

*First-time buyers (FTBs) face many obstacles to homeownership in the competitive post-pandemic market. Although an increased Stamp Duty nil-rate threshold will be useful, saving for a deposit is still challenging.*

### Hefty price tag

Indeed, the average deposit for an FTB has climbed by 41% (after adjusting for inflation) in the last decade<sup>11</sup>. That means that, to put down a 15% deposit on an average house, prospective buyers now need to find £41,765. After accounting for other expenses such as surveyors' fees and the cost of moving, the initial price tag can quickly reach £50,000.

### Regional differences

In the last decade, the East of England has been the region with

the biggest growth in average deposits (51%), ahead of London (47%) and the East Midlands (47%).

The London Borough of Waltham Forest has experienced the biggest rise (79%) since 2012, with Barking and Dagenham close behind (77%). Outside London, Thanet has recorded the largest jump (73%).

### Savings boost

Although the past decade's low interest rates haven't made the task of saving any easier, recent rises to Bank Rate could help savers accumulate a greater level of interest.

<sup>11</sup>Barrows and Forrester, 2022

*Although an increased Stamp Duty nil-rate threshold will be useful, saving for a deposit is still challenging*

## Couples choose subscriptions over insurance

*Many British couples are prioritising films over a financial safety net, new research<sup>12</sup> shows.*

Insurance is an afterthought for many couples, according to the survey, which revealed only a quarter consider life insurance a cost worth dividing between them. Furthermore, close to a third admit to prioritising other spending, such as Netflix or a gym subscription, over life insurance.

### Sharing is caring

Sharing a night-in on the sofa might seem more appealing than sharing a life insurance policy. But taking out insurance with the person you've chosen to share your life with can provide security and certainty for many years to come.

### Together forever

What's more, joint policies often work out cheaper for couples.

A joint policy will only pay out once – when the first person dies. So, it is important to consider the level of protection you need, especially if you have children or other dependants.

<sup>12</sup>MoneySuperMarket, 2022

**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.

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK.