NEWSLETTER

LILAC FINANCIAL

If any of these articles pique your interest and you want to discuss more, please get in touch.

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How might rising interest rates affect your mortgage?

The Bank of England has raised interest rates and warned further hikes are likely in the coming months.

This will mean bigger bills for some homeowners.

On 22 September 2022, the Bank of England raised interest rates from 1.75% to 2.25% - the seventh hike since December 2021 - in a bid to combat soaring inflation. And, the Bank's Governor, Andrew Bailey, has warned people to expect further rises in the coming months.

It is now widely anticipated that rates will rise to over 5% by Spring next year. This has had a huge impact on the mortgage market – with some lenders pulling deals altogether and others replacing their offerings with more expensive alternatives.

What does a rise in interest rates mean for your mortgage?

If you don't have a fixed-rate mortgage, you're likely to see your borrowing costs rise, although how they are affected will depend on the type of product you have. Your adviser can help you assess your mortgage deal and figure out ways to make savings.

- Only borrowers with a mortgage that moves up or down with the base rate will be immediately affected by the interest rate change.
- This includes tracker mortgages and standard variable rate mortgages (which you revert to when a mortgage deal ends).

Fixed-rate mortgages

If you're on a fixed-rate mortgage deal, you won't see any change in your monthly payments. This is because the interest rate you pay stays the same for the length of your mortgage deal.

But with further interest rate rises expected, if you're close to the end of your current term, it may make sense to look for a new deal sooner rather than later. You can generally lock in a new mortgage deal three to six months before an existing deal comes to an end.

If you've got more than six months to the end of your current deal, you'll either need to wait for a while or pay the early exit fee (A fee you may have to pay your current lender if you end your mortgage deal prior to the 'official end date') We can advise you on the best way forward.

Standard variable rate mortgages

You end up on a standard variable rate (SVR) when a tracker or fixed-rate mortgage deal ends, and you don't remortgage.

If you're currently on your lender's SVR, you may well see your monthly payments increase following the rise in the base rate. You may not be hit with the full increase though, as these rates go up at a lender's discretion.

Tracker mortgages

Tracker mortgages follow the Bank of England's interest rate. So, payments on your tracker mortgage will rise as a direct result of any increase in the base rate. Exactly when this happens will depend on your lender.

As a rule, tracker mortgages do not exactly match the base rate but are set at a level just above it. For example, if your lender's rate is the base rate +1%, the interest you'll pay in total on your loan will be 3.25 % (based on the base rate of 2.25% - 5 October 2022).

Whatever type of mortgage you have, we can advise you about how the interest rate rise might affect you and address any questions or concerns you have.

How to save on your mortgage costs

The best thing you can do is to speak to your financial adviser. If you're on a tracker mortgage, they'll be able to advise whether changing to a fixed-rate deal to protect yourself from any further rises is a good idea. They'll also let you know about the fees involved when making changes to your mortgage. If you're on an SVR, the interest rate you will switch to when your initial mortgage deal ends, you can switch to a new mortgage deal at any time. With interest rates rising, your adviser can help you look at available fixed-rate deals.

If you're already on a fixed-rate deal, your mortgage payments won't increase until your current term ends . With many lenders letting you lock into a new deal six months before your existing one finishes, it's a good idea to plan ahead.

Whether you're looking to remortgage or are a first-time buyer, we can help you find the most suitable deal for your circumstances and help keep your costs down.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE OR ANY OTHER DEBT SECURED ON IT

OW4223 Exp. 31/01/23

How to protect your mortgage

Strengthening your ability to keep up with mortgage payments is important and will give you some peace of mind if your circumstances change.

Life insurance is the form of protection most of us would name as one that could pay down or pay off a mortgage. Yet there are other situations (apart from death) that could mean it's very difficult or even impossible to keep up with mortgage payments for an extended period – without the help from other types of coverage.

Here are some protection policies you might want to have in place (alongside life insurance) to give your mortgage some security if you are unable to keep up with mortgage payments. Your adviser can help you work out the best option for your situation.

Critical illness protection pays out a one-off, lump sum if you're diagnosed with a critical condition or disability that is covered by your policy. It can be offered when you buy for life insurance, as extra coverage.

Income protection pays out a percentage of your monthly income if you are unable to work due to illness, an accident or disability. Depending on the terms, you'll receive a regular income until you either return to paid work, retire, pass away or if the policy term comes to an end.

Mortgage payment protection insurance (MPPI) pays your monthly mortgage payments if you're unable to make them due to an accident or illness.

What's the difference between income protection and MPPI?

Income protection insurance is seen as more comprehensive than MPPI as it covers a proportion of your income and not just your monthly mortgage payments. It could also help to cover monthly bills aside from your mortgage. The period you're protected with income protection tends to be longer than MPPI, too.

Your adviser will help you find a policy that works for you and your needs, in terms of the length of cover you want and how much the premium might be. MPPI premiums could be lower than those for income protection and more affordable.

Our advisers are here to help if you're looking for ways to protect your mortgage.

OW4162 Exp. 29/09/2023

What are value-added services?

Value-added services are benefits included in an insurance policy that you might not be aware of – but could help improve your overall health and wellbeing.

When you take out an insurance plan like life insurance, critical illness or income protection, you get the financial protection in the form of a payout, but there are also other services available to you as complementary parts of those plans.

These 'value-added services' or 'wellbeing services' are designed to provide customers with a range of emotional and practical support services throughout the life of the plan, not just when you may need to claim. Most services are included within the price of the plan and can often be accessed by family members too.

It's a good idea to check your policy first (and contact your provider to see if any of their services carry a charge) but you may find some of the following complementary value-added services are part of your policy:

Annual health check

A range of tests to check various health markers such as cholesterol and blood sugar levels. This may be followed by a consultation with a nurse or GP to discuss the results, depending on how your policy works.

Bereavement counselling

Giving you access to emotional and practical support at a difficult time, if you have been affected by bereavement.

Mental health support.

Being mindful of mental health is more important than ever. These value-added services help those facing mental health challenges, with counselling through various health providers.

GP services

Ability to see or speak to a medical professional from your home or faceto-face, without facing long waiting times, and at a time that suits you.

Second medical opinions

Second medical opinion services give you the chance to check with a second medical professional about the course of treatment or a diagnosis you've received.

Nutritional support

Gives you access to a nutritionist to help improve your diet, which could boost your overall health.

Fitness services

These services give you access to fitness services to enhance your overall health and wellbeing.

These are just some of the extra-value services that your insurance plan could offer, covering a wide range of needs.

If you're unsure about how to find out more information from your policy, our advisers are here to look at the small print and help you make the most of any value-added benefits available to you.

OW3823 Exp. 17/01/2023

What is income protection?

Income protection insurance pays out a percentage of your monthly income if you are unable to work.

Your income is important and keeps your family secure. So, if you are in a situation where you'd like to protect it if anything happened, you might want some income protection.

How does income protection work?

Income protection is an insurance policy, so you pay a monthly or annual premium for it like any other type of insurance. If you can't work because of sickness, disability, or other reasons (depending on your policy criteria), you will receive a regular income until you either return to paid work, retire, pass away or the policy term comes to an end.

The amount that is paid could be anything from 60% to 65% of your pre-tax income, and payments (which are tax free) will start after a pre-agreed waiting period, which could be weeks or months. You'll pay more in premiums if the waiting period is shorter, and the percentage of your income is larger.

Income protection is different to life insurance or critical illness cover, both of which do not pay regular amounts but instead give you one-off lump sums in the event of your death or the diagnosis of a critical illness. That's why it's important to seek financial advice if you are thinking about getting coverage.

Who could benefit from income protection?

If you work in a high-risk profession or have high-risk hobbies, you might want income protection in case you're unable to work because of an accident. If you've suffered an illness and feel you're at risk of being unable to work because of it, income protection could provide peace of mind, too.

Some things to consider if you are thinking about getting income protection include:

- if you have a good level of statutory sick pay from your employer, you may not need more cover.
- is it the best option for you and your situation? For example, do you (or your partner or spouse) have sufficient savings to help provide an income if you were unable to work?
- can you keep up with the premiums?
- will you find any exclusions in your policy difficult to manage?
- are you close enough to retirement to not need income protection?

How are premiums calculated?

As with any insurance policy to do with your life and health, factors like your age, health condition, if you smoke, your occupation and others (like how much of your income you would like to receive, and how soon you would like payments to start) will be considered when your premium is calculated.

Our Protection Advisers will be able to give you advice and guide you through what type of policy works best for you, helping you find value for money as well as some peace of mind knowing your income is protected.

Our advisers can help you find an income protection policy to suit your needs and keep your family secure.

OW3654 Exp. 19/10/22