Shared Ownership Best Buys

JUNE 2023

Inside

- **Best Buys and Market Watch**
- **Market Watch/Update**
- **Ask Emilia –** ‘Current common FTB questions’

Best Buys and Market Watch

Overview of the total number of Shared Ownership Mortgage products available to our customers as of 27th June 2023

Metro Market Watch:

Overview of the total number of Shared Ownership mortgage products available to our customers.

95% LTV – 64 products ↓**22**
90% LTV – 157 products ↓**21**
85% LTV – 199 products ↓**22**
80% LTV – 200 products ↓**21**
75% LTV – 233 products ↓**17**

Our Best Buys now show the difference in rates month on month. Helping to give you a clearer picture the impacts of rising interest rates.

Lender numbers and product numbers reflect a very healthy Shared Ownership mortgage market.

- **Total lenders in SO = 29**
- **Total SO lenders at 95% = 19**

2 Year Fixed Rates

	95%	90%	85%	80%	75%
Best Fixed at **May 2023**	5.25%	4.80%	4.80%	4.80%	4.80%
Current Best Fixed Rate	**5.64%**	**5.90%**	**5.90%**	**5.90%**	**5.49%**
Differential	**+0.39%**	**+1.10%**	**+1.10%**	**+1.10%**	**+0.69%**

3 Year Fixed Rates

	95%	90%	85%	80%	75%
Best Fixed at **May 2023**	5.19%	4.79%	4.55%	4.64%	4.34%
Current Best Fixed Rates	**5.49%**	**5.49%**	**5.30%**	**5.30%**	**5.30%**
Differential	**+0.30%**	**+0.70%**	**+0.75%**	**+0.66%**	**+0.96%**

5 Year Fixed Rates

	95%	90%	85%	80%	75%
Best Fixed at **May 2023**	4.99%	4.58%	4.39%	4.34%	4.34%
Current Best Fixed Rate	**5.49%**	**5.10%**	**4.89%**	**4.89%**	**4.94%**
Differential	**+0.50%**	**+0.52%**	**+0.50%**	**+0.55%**	**+0.60%**

Market Watch June 2023

You could quite easily be living in fear or a complete bag of nerves after reading recent headlines concerning mortgage rates…..

The press are of course correct, interest rates for mortgages are rising, but why?

Rolling back in time a few months, there was a claim by Gov that inflation would be under control by now, and it clearly isn't. **Now, imagine if you controlled swap rates, the mechanism for pricing mortgage fixed rates.**

Part of your job would be predicting where Bank of England base rate would be in say 6 or 12 months time. At the start of the year you'd have factored in that inflation would be under control by now and hence base rate would be more stable with no need for BofE to keep raising it.

Right now you'd have to admit that pricing prediction needed further adjustment because inflation is still rampant and more than likely Bank of England will have to increase base rate further. So you'd increase the level of swap rates. This action would force mortgage lenders to withdraw products and re-price higher.

Which is what you see happening right now, average two year fixed rates hanging around 6%. Because lenders have re-priced because swap rates are taking account that inflation is not under control, or where they thought it would be. Which in turn means base rate will likely rise, in attempt to control inflation more.

So if you took a Shared Ownership mortgage at £100,000 in summer last year, at a rate of 3.7% with payments of £511 per month. Today the rate would be more like 5.8% with payments of £632 i.e £121 per month more.

But, if you had a mortgage of say £200,000 on an open market property, using the same interest rates you'd now be paying £241 per month more (£1023 per month before & £1264 after). **Proportionately and significantly a lot more impactful, which is one of the reasons we see the volume of OM purchase transactions so down**. Some lenders reporting 30-50% down on OM mortgage applications.

There's nothing cheery in any of this, we all get hit with rising costs. Most lenders I speak with believe (at this stage) fixed rate mortgages will probably increase by another 0.5% by year end. That said, it's pretty safe to assume that whilst lender transaction volumes are down, they will be fighting hard for business, which means rates/margins will be cut to achieve the market share they need. To some extent that will help a little, think of it as shielding from what could be! Looking at Metro's rate tables, you can see there's very little (if any) difference between rates when deposits are increased i.e **in some instances a 20% deposit compared to a 10% deposit does not buy a better interest rate. I believe this is a temporary reflection of lenders pricing cautiously**, perhaps concerned over quicker swap rate movement. This should naturally revert through lender competition over the coming weeks, differential between rate bandings should retrun.

On the bright side, none of this dampens demand for Shared Ownership, **if Shared Ownership were alive**, it would be thinking 'this plays right into my hands….' And it would be right, those that want to buy homes and are determined to do so, buy the home not the scheme. Shared Ownership is the enabler in a climate that further challenges affordability and deposits.

Ask Emilia...

Emilia Hunt - Sales Director at Metro Finance, the largest shared ownership mortgage provider.
Metro Finance helps around 2400 shared ownership buyers per month. Emilia has been part of Metro Finance for over 10 years.

First Time Buyers, the common questions…..

As a first time buyer, looking at the media and seeing all the conversations about interest rate rises it must be an unnerving, and even for some off-putting, time to be buying a house.

Here I try to answer some common questions asked by first time buyers, here at Metro Finance.

What type of interest rates are available and how do I protect myself against interest rate rises?

1. Fixed Rate – As a first time buyer this is the most secure interest rate, irrelevant of whether the Bank of England base rate is going up or down as your interest rate will remain the same. It's fixed for a period of time.
2. Tracker Rate – This follows the Bank of England base rate so there will be times where a tracker rate can be beneficial but times such as now, where the base rate is increasing, you will find your monthly payments increasing each time this happens. This is a rate for those who are willing to take more of a risk and have disposable income to mitigate against the risk of payments increasing
3. Variable Rate – This rate is normally set by the mortgage lender so doesn't necessarily track the Bank of England base rate. Again it is always at risk of changing which puts your payments at risk.

What a first time buyer should consider is the costs of running a property can be unexpected so having a fixed rate can allow you to budget each month without worrying about what is happening in the markets.

But what is the downside of a fixed rate?

1. They can be priced higher although, at the moment, there appears to be very little difference between a fixed rate and a variable/tracker rate.
2. They could come with early repayment charges if you wanted to repay your mortgage during that fixed rate period.
3. If interest rates did drop you would not be able to take advantage, whilst you were on your fixed rate, unless you paid the early repayment charge.

Cont'd

How does the length of a mortgage affect payments?

Mortgage terms could vary anything from 5 years to 40 years. Taking a longer mortgage term will reduce the monthly cost however it does mean you pay more interest ultimately on your mortgage.

Things to consider when looking at the mortgage term;

1. What age do you want the mortgage to be repaid by? Most people don't want to take a mortgage into retirement and are keen to have it repaid prior to retirement. Or, you might want to retire early and pay more over a shorter term.
2. How much do you want your monthly payments to be? Always have a budget in mind and then set the term around this. You don't want to be stretching yourself too much on your mortgage and then you can't enjoy your new property but you also don't want to be paying more interest than you need to. Your Mortgage Adviser will discuss all of this in much more detail.

What happens if I make overpayments?

This is a really common question we get asked and it's such a beneficial thing if you can afford to make over-payments. Ultimately if you can make overpayments on your mortgage you will bring the balance of your mortgage down decreasing either the monthly payments or the term of the mortgage. This will mean you pay less interest.

For example, if you have a mortgage of £200,000 over 30 years and you could afford to pay an extra £100 each month you could end up reducing your mortgage term by approx 5 years.

Similarly, if you had a mortgage of £100000 over 25 years and paid an additional £75 per month you could also end up reducing the term by approximately 5 years.

There are many factors involved in this, such as the mortgage interest rate you are on, so it's something to discuss on an individual level with your mortgage advisor.

Many lenders allow overpayments of up to 10% per year of your mortgage balance but again check this with your advisor before you pay anything to make sure you don't get any charges.

Mortgage advice is always personalised so it's best to speak to a specialist mortgage advisor. The above is designed to give you an insight and not provide advice.

Thank you

- ✓ Any questions just ask
- ✓ Help with assessments just ask
- ✓ Help with SO lending just ask

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