Ashbridge PARTNERS INSIGHTS

SPRING 2025

It has been a whirlwind six months since our last edition of Ashbridge Insights. In October, Chancellor, Rachel Reeves, delivered some major fiscal changes in her Autumn Budget, including the addition of VAT to school fees from January. As parents and schools adjusted to this, the world has also faced volatile policy changes emanating from the new White House administration.

Inflation, increasing business taxation and the higher cost of capital is putting direct or indirect pressure on all businesses and consumers, creating a tough environment for organisations and individuals in the UK.

In this edition of Ashbridge Insights, we consider how finance can be used to plan for - and mitigate - inheritance tax charges. In the light of higher interest rates across the board, we also look at the benefits of engaging the services of a finance advisor to access the lowest rates and offsetting bank commission payments against advisor fees.

Finally, we provide some insight into what the financial future holds and what you may expect from your bank and the interest rate market in the coming months.

Leveraging finance to mitigate your inheritance tax

From April 2026, the changes proposed in the Autumn Statement will make many more business owners liable for inheritance tax (IHT), as the 100% IHT relief on business and agricultural property will be limited to £1m per individual from that date. Assets above that threshold will benefit from only 50% relief, which means an effective 20% IHT charge.

The farming community has been shaken by these changes and, recognising the significance of this policy, we commissioned a survey of 2,000 farmers. Our research found that 3 in 10 farmers anticipated IHT bills in excess of £500k and 39% predicted that their businesses could be unsustainable within five years. The press has reported widely on this research and I was recently invited to **talk about our findings on the GB News breakfast show.**

Family businesses are equally concerned about the policy and believe it will negatively impact the sustainability of our national economy in the coming decades. This is most keenly felt by businesses in which the current owners are senior citizens or suffering ill health and, therefore, may not have the option of gifting assets and surviving for seven years.

We have several clients who have enlisted our services to help them navigate the imminent IHT policy changes. **Here are two examples under consideration, both of which involve looking at the role finance could play in IHT planning.**

300-Acre Farm With £5m Net Worth

The farmers are in their 80s and live in the farmhouse.
They have a working overdraft facility but no long-term debt.

Prior to October 2024, this couple's professional advisors expected that, upon the second death, their estate would be free of inheritance tax. From April 2026, the new regime will demand an IHT charge of approximately £500k, assuming they are able to use approximately £2.5m of IHT relief at 100%.

In light of the government policy change, they would like to transfer some capital value to the next generation and start the 7-year clock ticking, but they still need all the farm income to support themselves and gifting the farmhouse whilst remaining living there rent-free would fall foul of the Gift with Reservation of Benefit (GROB) rules.

One solution may be to raise a mortgage against the farmhouse and gift this money to the next generation. There are products that offer an interest roll up facility for life at competitive fixed rates, so servicing the interest need not be a cause for concern.

Upon receipt of the gifted monies, the next generation could re-invest the proceeds into more farmland, other property assets or a liquid investment portfolio. After the second death, the next generation could liquidate their invested monies and use them to repay the residential mortgage.
If a £1m farmhouse mortgage were raised, it has the potential to reduce the IHT charge by 20% of that sum, i.e. £200k.

For estates of higher value, the principal of raising finance to transfer wealth to the next generation is very similar and can be a useful tool in situations where it is not desirable to transfer the underlying assets themselves.

Retired Couple in Their Late 70s

£1m home and £1m pension
Net worth of £2m and pension income of £50k.

As things stand today, this couple could transfer all of their assets to the next generation without incurring IHT. However, from April 2027 the pension fund will fall within the scope of IHT and this could mean an IHT charge of £400k for their heirs.

With parallels to the previous case study, this couple may wish to raise a lifetime mortgage against their home and gift those monies to their children. Assuming one of them survives for 7 years, the gift should fall outside of their estate. For example, if they raised a mortgage of £500k, this could reduce the ultimate IHT charge from £400k to £200k.

In the meantime, the couple may become more focused on running down their pension and take comfort from the fact that they are not needing to service the interest on their mortgage.

Interest rates: how will they change in the coming months and how do you achieve the lowest rate?

It was a comfort to borrowers to see the Bank of England base rate reduce to 4.50% from 4.75% in February, following its Summer '24 high of 5.25% . Market expectations for further movements have fluctuated, given conflicting economic signals, both here and abroad. At present the consensus appears to anticipate up to two 0.25% falls this year, which would bring base rate down to 4.00% by the end of 2025.

Only three years ago, the base rate was at 0.75% and it had been fluctuating below 1% since early 2009, so today's rates are still dramatically higher than we are accustomed to.

The base rate increases of recent years have proved a difficult adjustment for many individuals and businesses.

Of much greater importance to our clients and their businesses, is the actual rate of interest they are paying, which is known as the 'pay rate'. This is not as directly linked to base rate as many people believe. To clarify, if a client takes a variable rate product, then the base rate acts as the 'cost of funds' in calculating the pay rate. However, if a fixed rate is used, then the swap market is the reference point for the 'cost of funds'.

In both scenarios the actual pay rate is determined by the combination of 'cost of funds' and the interest margin applied or offered by the lender. Therefore, the actual interest margin above 'cost of funds' that a client is able to access plays a significant part in the ultimate rate they pay.

In the residential mortgage market, the interest margin is determined by many factors including loan to value, an individual's income history and type of income (i.e. salary, bonus, investment, trust, dividend, the currency it's paid in), tax residency, nationality, age and number of dependents, to name just a few.

We are all familiar with seeing the best buy list of mortgages, which at the time of writing was just under 4.00% for a 60% loan to value 5-year fix from a high street lender. However, there are other scenarios where a client is paying perhaps 2% or 3% more, due to their circumstances and income history.

Seeking professional mortgage and financing advice is the best way to ensure access to the most efficient and appropriate terms, as the long-term costs of getting it wrong can be significant.

In the commercial loan market, we have seen a gradual compression of interest margins over the last couple of years. This reflects the robustness of the UK banking sector and the benefit of higher interest rates feeding into their profitability. Put into perspective, prior to 2008 we saw plenty of loan agreements at 1.00% – 1.50% interest margins over bank base, but from 2009 that picture changed and interest margins jumped by 1.00% - 1.50%, leading to margins typically in the range of 2.00% - 3.00%.

We continue to achieve market leading interest rate terms, so be sure to seek professional advice before entering into any new agreements.

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KEY FACTS **2024**

£150m

TOTAL LOANS ADVISED UPON

22	49	40%
LENDERS USED	LENDERS APPROACHED	AVERAGE PERCENTAGE OF CLIENT FEE FUNDED BY LENDER COMMISSION

TYPES OF FUNDING

Bridging, residential development, Buy to Let, residential mortgage, commercial loans, working capital.

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KEY FACTS **LAST 5 YEARS**

59 LENDERS USED	**£6.5m** ROLLING AVERAGE COMMERCIAL LOAN SIZE
£65m LARGEST LOAN SIZE	**£755k** ROLLING AVERAGE RESIDENTIAL LOAN SIZE

SECTORS

Family businesses, estates & farms, entrepreneurs, real estate, residential.

Why banks pay us commissions and how this impacts borrowers

In the Autumn '24 edition of Ashbridge Insights, we discussed the way in which the intermediary market has evolved over the last couple of decades and how this has impacted upon client behaviour and their relationship with banking.

The key change is that clients now typically enlist a finance broker or

advisor to assess the availability and cost of the finance they require before they act. This doesn't mean that they won't also approach their own bank, but client mentality has shifted significantly and there is far greater recognition of the wealth of options and lenders available in the market.

One of Ashbridge Partners' USPs is that none of our advisors work in isolation. Our collaborative approach means that every client benefits from the full breadth of our combined years of experience. This is particularly valuable where we are able to consider both residential mortgage and commercial loan options, as both have attractions and downsides.

Banks and lenders have also evolved and now consider us to be their marketing and business development partners. This allows them to spend less on 'boots on the ground' generalist bank managers and use the saving to enhance the loan terms offered for clients and fund commission payments to businesses such as ours.

We have always been transparent about the fee we charge a client and this continues to be a guiding principle of our business. **Any commissions paid to us by lenders are offset against the client fee**. In effect, this means that our income return is unaffected by the commission, but that our clients reap the benefit of a lower net fee for our service.

In the commercial loan market the vast majority of lenders are paying commission and, in many cases, the level of payment has increased. For example, we now have several lenders who pay 1% of the loan amount and most are paying 0.50% or above.

In short, this arrangement seems to be a win/win for clients, lenders and advisors and is likely to expand further over time.

What does the financial future hold?

We urge businesses and individuals to anticipate a BOE base rate in the 3.50% - 4.50% range for the next 5 years. Interest margins in the commercial market may soften a little further but residential margins are already wafer-thin, so there is little room for improvement. Ultimately, the cost of finance for the consumer will depend upon the macro factors affecting the base rate, the cost of funds and the interest margins the lenders are able to offer.

Good advice is key to successfully navigating change

The UK banking sector is in good health, so the availability of finance for residential mortgages and commercial loans should remain robust and

competition will continue to drive innovation and attractive pricing. We believe that finance has a part to play in the efficient transfer of wealth down the generations, particularly given the proposed IHT changes.

Get in touch today **to find out how our expertise can help you address policy changes and reimagine your financial future.**

Mark

Mark Ashbridge, Managing Director

IN CASE YOU MISSED IT…

Autumn Insights 2024 ↗

"Ashbridge Partners provided a complete package for me, from the beginning of my first mortgage to a re-mortgage a few years later. They were super easy to deal with, always accessible, had a good market understanding on both occasions and were able to secure the best deal for me with their extensive contacts. I wouldn't hesitate to recommend them."

Residential

"I had to refinance due to my existing bank becoming more cautious in their policies. Ashbridge Partners were enormously helpful with fine tuning my business model and provided valuable advice.

It was refreshing to have an independent eye to talk it through with. With their guidance, I felt confident in my decision to switch banks and the whole process was much less stressful, with a greater sense of certainty.

Overall, working with Ashbridge Partners was an incredibly positive experience that brought peace of mind to my life."

Hospitality Business

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