



# Mortgages & Remortgages

The average price of a property is lower, and property is currently more affordable in some areas of the UK. Yet, interest rates are at the bottom of the cycle and may go up. Also, the recent financial crisis and tenuous economic conditions makes for cautious lenders. Lenders carefully scrutinise the proof of income provided by the borrower and often require more deposit monies from first-time buyers or those looking to buy a property for rental purposes.

In these conditions, a borrower should learn about the many mortgage and [remortgage](#) choices. Good information will help borrowers find the [best mortgage](#). This guide discusses:

1. **Reasons to Get a Mortgage.**
2. **Type of Mortgage Interest rates offered by lenders.**
3. **Qualifying for a better interest rate.**
4. **Fees, charges, and costs.**
5. **Mortgage repayment choices.**
6. **Remortgage considerations.**

## Hints and Clues

Remember too that the economy in the UK and around the globe could change. This is not a time for most borrowers to take unnecessary risk.

### 1. Reasons to Get a Mortgage.

- **Buy to own** – A typical mortgage where the borrower owns the home or property



- **Buy to let** – A mortgage on a property let to tenants.
- **Right to buy** – A mortgage where the tenant has the right to buy their local authority house.
- **Let and buy** – To let an existing home or property and buy a new home or property with a mortgage.

### Hints and Clues

There are many good reasons to buy a property. To let a property to a tenant gives the borrower increased opportunities, but also increased risk. Not every tenant cares for the property and makes timely payments.

### 2. Type of Mortgage Interest Rates Offered By Lenders.

- **Standard variable rate (SVR)** – This interest rate is linked to the costs in the credit markets. The interest rate of a mortgage loan will vary to reflect changing market conditions. If the cost of credit goes down and the interest rate decreases, the borrower will have lower mortgage payments but higher payments if the interest rate increases.
- **Variable rate** – The lender sets the mortgage interest rate. While it may reflect the varying costs of credit, the lender does not link the interest rate to these costs as in the SVR.
- **Base tracker rate** – A fixed percentage is added to the variable Bank of England's Base Rate to set the mortgage interest rate.
- **Discount rate** – The interest rate is discounted from the SVR for a set period. Two examples: 1. The SVR is reduced 2% for the first 5 years of the mortgage repayment. 2. The discount rate is stepped for a 3% SVR reduction in year 1, a 2% reduction in year 2, and a 1% reduction in year three.
- **Fixed rate** - The interest rate of the mortgage is constant for a set period, typically up to 5 years and then the rate goes to the SVR. Fixed rates for over



5 years tend to be more expensive. In addition, the early repayment charges are often higher, so shorter term fixed rates are more popular.

- **Capped rate** – This rate caps the interest rate of the mortgage as a protection to the borrower. A variable interest rate cannot rise above the cap but can vary beneath the cap. Capped rates are sometimes for a fixed period like 3, 5, or 10 years.

### Hints and Clues

The fixed or discount rate offers an incentive for the borrower. They also give the borrower time to get comfortable with their payment schedule before the mortgage reverts to a variable rate. Ask which type of interest rates would be best for you.

### 3. Qualifying for a better interest rate

Everyone should seek the best rate possible. Here are some ideas that may fit your situation:

- Increase your deposit amount.
- Ask for a better rate or small loan adjustments that may lower your interest rate.
- Shop with other lenders and compare like-for-like mortgages.
- Employ the services of a good whole of market Broker
- Sell off an asset that you make payments on to reduce your other debt amounts.
- Examine your credit history to see if you can improve your credit score before you buy.



Many lenders offer a variety of mortgage approval methods. Here are two examples:

- **Adverse credit mortgage** – made to borrowers with credit problems, like a county court judgement.
- **Self-certified mortgage** – the lender accepts a statement of earnings as certified by the borrower to determine affordability, and does not seek proof of income. With the recent financial crisis, fewer lenders now accept this. Additionally, the Financial Services recently proposed a ban on self-certified mortgages.

#### 4. Fees, Charges and Costs

##### Lenders Fees:

- **Product fee** – The fee the borrower pays to obtain the product, the mortgage deal. This fee can be around £500, or much higher.
- **Valuation fee** – The lender pays a surveyor to assess the property and ensure it is worth enough money to cover the mortgage amount. The surveyor's fee depends on the price of the property. The lender then charges the borrower.
- **Higher lending charge (HLC)** – Lenders impose this fee on mortgages exceeding a pre-defined loan-to-value (LTV) percentage threshold. At this time, the HLC is typically charged on a loan that more than 90% of the property price. Some lenders have moved away from charging a HLC, favouring instead an increased interest rate on higher LTV mortgages. If possible, borrowers should increase their deposit to reduce the LTV to 90%.
- **Insurance penalty** – Some lenders will charge this if the borrower chooses to buy buildings insurance from another provider and not from the lender.



- **Early repayment charge (ERC)** or redemption penalty – This can be charged if the borrower pays off a loan during a discounted or incentive period of a mortgage. The ERC could decrease with time.
- **Exit fee** – This fee is imposed by some lenders when you redeem your mortgage before the term ends, such as paying the mortgage off early or switching to another lender.

### Common Legal Costs:

- **Solicitors fee** – Most lenders expect the borrower to cover the legal fees incurred, which are typically around £200.
- **Land Registry fee** – These are payable to register the property in your name. This fee is around 0.1 % of the property price.
- **Search fee** – Cost for a required search of the records of the local authority relating to the property. This fee is around £130 to £300
- **CHAP or telegraphic transfer fee** – This fee covers the small cost to transfer money from the lender to the solicitor of the borrower.
- **Stamp Duty Land Tax** – This charged on land and property transactions in the UK when the property price is over £125,000.

### Hints and Clues

Some costs and fees are paid upfront and others may be included in the mortgage loan. Remember that you will be paying interest on the fees that are included in the mortgage. When comparing mortgage products, be sure you know how all fees are to be paid. Also, make sure the lender tells you which pre-paid fees they will not refund if they reject your mortgage application. Note that the Annual Percentage Rate (APR) appearing in the adverts of the lender is unreliable without knowing all the costs and fees. After getting a detailed quote of mortgage costs from a lender,



you can know the true APR. Use our loan calculator to test the actual numbers and to test other payment choices.

### 5. Mortgage repayment choices.

- **Repayment mortgage** – A typical mortgage repayment method where the capital and interest are repaid together.
- **Interest-only** - The borrower pays the lender only the interest each month, and chooses to make another payment into an investment or savings account. This account will to be used to pay off the entire capital when the mortgage term ends. This choice offers low payments. It can be risky if the buyer does not make the investment deposits but instead expects to make a profit when the home goes up in value. Endowment or investment backed mortgages are typically interest only repayments.
- **Flexible mortgage** – This allows additional capital payments without penalty and often allows payment holidays or underpayments.

#### Hints and Clues

If you want to pay off extra capital, ask the lender when you can do that and how to avoid early repayment charges or penalties. At least be sure that the early repayment gives interest savings larger than the extra charges. Ask your lender about a flexible mortgage repayment to see if any fit your needs.



## 6. Remortgage considerations.

Remortgage means switching your mortgage deal and/or mortgage lender.

### Reasons for getting a remortgage:

- To get a better interest rate and reduce monthly mortgage payments.
- An incentive interest rate is about to revert to a higher standard variable rate.
- Plans to move house.
- To release home equity and free up cash for debt consolidation or a major purchase.

Taking a remortgage loan requires much of the same research as taking a mortgage. Note that for remortgages, there is no Stamp Duty Land Tax and the other legal fees are much lower.

Additionally, the borrower should be certain the special reasons for the remortgage are satisfied. For those wanting lower monthly payments, will the savings cover the cost of the remortgage? If an incentive mortgage period is ending, is the remortgage interest rate affordable? When releasing home equity, does it free up the cash I need? For all remortgages, am I getting the best interest rate available to me?

### Hints and Clues

If you desire only to reduce the mortgage cost, you may not need to remortgage. If you do not struggle to make your monthly payment and you are satisfied with your interest rate, then you may be able to reduce your total cost by repaying your mortgage early to reduce the interest charge. Possible ways to do this are:

- Make one payment every fortnight, which amounts to 26 payments every year. This directly reduces your debt by the amount of one extra monthly payment each year. Additionally, if the interest on the loan is calculated daily, the biweekly payments save interest by reducing your debt every two weeks instead of once a month.



- If you have a flexible loan, make extra payments or a higher payments whenever possible. Even if your repayment terms do not include this option, you may decide to pay the loan more quickly.
- Talk with your lender to see which payment choices you have in your current mortgage or if adjustments could be made to allow your payment schedule to be adjusted. Use our loan calculator to test the actual numbers for your payment choices.

Take control of your mortgage decisions, and get the [best mortgage](#) product available to you. Use this guide to help you ask the right questions of an advisor, and to help you do additional research.

