MORTGAGE FACTSHEET

Choosing and obtaining a mortgage is not a simple task these days - whether you are a first time buyer, moving home, or remortgaging as you reach the end of your current incentive. This fact sheet aims to simplify the procedures and guide you through some of the possible pitfalls. It also outlines the different types of mortgage available and which may be the most appropriate.

WHO SHOULD YOU BORROW FROM

There is now a wide range of institutions willing to provide mortgages, from the traditional Building Societies and Banks to more specialised mortgage lenders. There are also lenders that use either the Internet or telephone to sell their mortgages. Despite people's perceptions, the mortgage marketplace remains highly competitive. You should ensure that you know what your mortgage rate will revert to after your initial rate has finished. There can be a difference of over 1% in the 'Standard Variable Rates' of the various lenders, with the demutualised Building Societies and Banks being in general more expensive than the remaining Mutual Societies. You may either approach a lender direct, or alternatively use a Mortgage Broker or Independent Financial Adviser. Lenders, Mortgage Brokers and Independent Financial Advisers are regulated by the Financial Conduct Authority, which ensures that advice is fair and in the best interests of the consumer.

HOW MUCH CAN YOU BORROW

The amount you can borrow will be determined by the mortgage lender and will depend on whether you are proposing to borrow an amount that is considered affordable for you to repay. It is no longer simply a question of looking at your income before tax and saying you can borrow a multiple of that figure. There are factors that can affect the amount you can borrow aside from your income such as the term of the loan, how you plan to repay it, your credit rating and details of other financial commitments you have.

WHAT COSTS ARE LIKELY

The lender will require a Valuation of the property in question and the cost of this is based on the value of the property, will vary between lenders and may be free if you are remortgaging. This merely affirms that the property has an adequate "security value" for your lender. The valuation report, although it should cover any obvious defects, is the result of a limited inspection only and you are recommended to make your own arrangements to have the property surveyed.

A **Homebuyer's Report** is more detailed and will give an independent view of the property and point out minor and major defects and suggest any necessary further investigation.

It does not however cover inaccessible parts of the property such as floors covered by carpets and parts of the roof. The cost of this is higher, perhaps around £800. Finally, there are more detailed **Structural surveys** which should be considered for older properties or when you think there may be any defects in the property. These are however considerably more costly. Survey fees are in general not refunded should the purchase not complete as the result of a poor survey.

Other costs to bear in mind are **Legal expenses, Local Search Fees and Land Registry Fees** which will together total several hundred pounds. Search and Land Registry Fees are not negotiable but the basic solicitor's fee can vary tremendously and it is worth obtaining quotations from several firms of solicitors. Some lenders these days will pay part or all of these fees for remortgages. For people purchasing a property, if price of the property is over £125,000, Stamp Duty of 2% is due on the amount between £125,000 and £250,000 with higher rates on values in excess of £250,000. This Duty does not apply to remortgages.

Lenders can also make an **Administration/Reservation** charge for particular mortgage products. This can vary from £100 to a percentage of the loan and would be advised to you at the time we make our recommendation.

It is the borrowers' responsibility to ensure that **Buildings** insurance is arranged (unless you are buying a leasehold flat). The amount the property has to be insured for is provided in the Valuation Report and cannot be a lower figure. In some cases taking out the Lender's Building and Contents insurance is a condition of the mortgage but if this is not so, there are many sources available by which to obtain a competitive quote.

Advice should also be taken on the need for protection linked to the mortgage arrangement. For example, life cover or ill health protection. You may also need to prepare a will or update an existing one. We will usually flag the need for such advice when we review your mortgage needs.

REPAYING YOUR LOAN

There are essentially two ways of repaying your mortgage. Either a repayment mortgage or an interest-only mortgage (although a combination of both is possible).

Repayment - This is the traditional method of repaying a mortgage, sometimes referred to as a Capital and Interest mortgage. Each month your payments go towards both the capital (the amount you borrowed) and the interest being charged. In the early years the majority of your payment goes towards the interest but in later years as the capital decreases, less interest is charged resulting in more capital being repaid. Your payments are calculated to clear the mortgage over your chosen term of the mortgage and will only change if interest rates change. There is no life protection with this method and it may be advisable to take out life cover to pay the mortgage should you die during the mortgage term.

Interest only - This method entails a monthly payment of interest only to the Lender but no capital which is paid as one payment at the end of the mortgage (or perhaps sooner, if funds allow). The capital is instead repaid by long term saving into your choice of 'Savings Plan'. It is the responsibility of the borrower to ensure that the savings plan is maintained for the duration of the mortgage and that it is reviewed regularly to ensure it remains on track. Failure to do so could mean that at the end of the mortgage term, insufficient funds are available to pay off all or part of the outstanding mortgage and you would have to make up any shortfall.

TYPES OF REPAYMENT PLAN

For an Interest-Only mortgage, there are a variety of savings vehicles that can be used to repay the capital at the end of the term.

a) Endowment Linked - These investments were heavily promoted during the 1980's although interest has reduced somewhat in recent years. Basically, for the duration of the mortgage you only pay interest whilst a premium is paid into an endowment policy.

At the end of the mortgage term the endowment is hoped to have accumulated sufficient to clear the debt but this is not guaranteed. An endowment is a combination of life insurance and an investment. An endowment policy would automatically pay the higher of the investment value or life cover figure in the event of the death of the borrower. If it performs well, it may provide a surplus on maturity. In recent times, many policy holders have been advised that shortfalls are more likely.

The main disadvantages are: inflexibility - the policy should run the full term to avoid large penalties (although early maturity options are sometimes available); cost - the high levels of commission paid on endowments means that in the first years very little value is attached to the plan and it is generally accepted that it is cheaper to make separate life insurance arrangements (if needed!) and other investment provisions; tax inefficiency - the funds suffer the equivalent of income and capital gains tax although in most cases payments under endowments are not subject to further tax.

b) Pension Linked - This is a tax efficient mortgage repayment method because of the tax relief available on pension premiums and on the pension fund itself. It works on the same principle as an endowment mortgage except that contributions are made into a pension scheme with part or all of the retirement lump sum being used to repay the loan. Separate life cover would need to be arranged if appropriate. This form of repayment is also extremely flexible - benefits from a Personal Pension can be taken at any time from the age of 55, thus allowing for early repayment of the mortgage after that age provided funds allow.

A Pension mortgage does need to be funded adequately in order to provide for both retirement and to repay the mortgage debt. However, for some time now many investors have turned to other more flexible forms of saving to fund retirement as pensions are perceived to have become very costly.

c) Stock Market ISA Linked - Stock Market ISAs invest in Stocks and Shares either directly or through a fund - all income and gains are completely free of tax (although the 10% tax credit on share dividends has been non-reclaimable since April 2004). As with endowment and pension linked mortgages the contributions are made over the term of the mortgage. Separate life insurance cover would be required if appropriate. The main advantage of an ISA is its flexibility - ISAs are about as flexible as you can get. If the plan grows faster than anticipated you can repay the mortgage early or indeed just repay part of it (a particularly useful option if high interest rates become a burden).

It should be noted that if your mortgage is linked to a stock market related investment such as an ISA, values can go down as well as up and cannot be guaranteed to repay the mortgage at the end of the term.

Whatever mortgage repayment vehicle you arrange, you must not assume it will meet your needs and should review it at least yearly to ensure that it remains on target to meeting your needs. You should also address any expected shortfall as soon as it is identified.

LOAN OPTIONS AVAILABLE

Having discussed methods of repayment, it is also important to consider the various options available for the loan itself. There are many variations available to suit the individual needs of the borrower. These are as follows:-

Variable Rate: This is the Standard rate of interest offered by lenders. It varies widely between lenders and since this is the rate which applies to most loans once the initial incentive rate option has passed, you should be aware of your chosen lender's Standard Variable Rate.

Tracker Rate: A Tracker Rate will remain a set margin above or below the Bank of England Base Rate for a specific period of time and the interest rate will rise or fall in line with this benchmark. Tracker rates are considered a good product when interest rates are on their way down.

Fixed Rate: These are based on an interest rate which is fixed for a guaranteed number of years. The main advantage of a fixed rate is budgeting security - the monthly repayment will remain constant during the incentive period. However, should interest rates fall, you may find yourself paying more than if you were on a variable or tracker rate mortgage. If rates in general seem to be on the increase or budgeting security is of importance to you, a fixed rate provides peace of mind.

Capped Rate: These rates are usually similar to Tracker rates although with the important factor that the rate is capped at a certain level and would not increase higher. Should the interest rate drop below the "cap", you would then pay the lower rate (usually subject to a minimum “collar” rate). They are in general higher than fixed or tracker rates.

Cashback: Normally with a cashback mortgage, you are borrowing at the Variable rate and you are receiving the "incentive" in the form of a lump sum at the beginning of the mortgage as opposed to spread over a set number of years, as with a fixed, discounted or capped rate. If you require money "up front" to help with the house move or furniture for example this can be a useful option.

Flexible Mortgage: Most mortgages are now incorporating elements of flexibility. All the various products vary between lenders but the common features are the ability to make overpayments, underpayments, take payment holidays and make lump sum withdrawals (subject to overpayments made in the first place).

Offset Mortgage: The most flexible kind of mortgage available, an offset mortgage allows you to use your savings to ‘offset’ your mortgage balance, reducing the monthly interest payable while allowing you instant access to your capital should you need it. While the higher interest rates make these mortgages unsuitable for many, for clients who are higher rate tax payers or who have significant cash holdings to which they need to keep access, an offset mortgage can provide excellent value for money.

As a brief note of caution at the end of any initial incentive period you should be prepared for the possibility of a significant "jump" in your monthly payments when the mortgage reverts to the standard variable rate.

Regardless of the form of special offer available, should you decide to change your lender or repay a proportion of your mortgage during the term of the ‘offer’, there is usually an **Early Repayment Charge** which is normally calculated as a percentage of the loan. Therefore, whilst it is indeed wise to review your mortgage arrangements regularly to obtain the best rates, it is vital to review the implications of any early repayment charge. Please do contact us to consider your options before contemplating action.

BORROWING FOR BUSINESS PURPOSES

When a loan secured against your home is utilised in connection with allowable business expenses, such as buying an Office or a property to let for example, it is still possible to obtain full tax relief for the interest payment. We shall be happy to advise further.

WHAT IF I CANNOT REPAY MY MORTGAGE?

It is often furthest from the mind when mortgages are established, to consider what will actually happen if you are unable to support the monthly cost of the mortgage. This can either be through death, long-term illness, marital problems, unemployment or redundancy. The first step should be to contact either your lender direct or ourselves, in order to seek appropriate advice. The sooner the problem is tackled the better, in order to prevent a build up of arrears which could be avoided by the lender providing a possible short term solution. If the lender is not aware of a problem and arrears build up without explanation it makes it more difficult for them to provide assistance.

A wide range of plans and policies are available to protect you against the financial implications of some of these problems. These should be considered when you originally take out your mortgage. There is also limited support available from the State, with certain restrictions.

It is strongly suggested that individuals seek specific advice should the necessity arise.

Please bear in mind that your home may be at risk if you fail to maintain your mortgage interest and capital repayments or those of any loans secured upon it.

We are authorised and regulated by the Financial Conduct Authority (FCA, No 181768). We provide advice and recommendation of the mortgage which we think is most suitable for your needs, based on the information given. Mortgages are chosen from the market place as a whole. Terms and conditions apply. Please be aware that Commercial Buy To Let mortgages are not regulated by the Financial Conduct Authority.