Your guide to mortgages.

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What is a mortgage?

In simple terms, a mortgage is a legally binding financial loan given to you by a bank or a building society, to help you buy a property – but until you've paid the amount back, those lending you the money hold the title of it (i.e. they own it, should you default on payments).

Where to start

Whether it's your first home, or looking for a new family home, the first thing to look at is how you can finance the purchase. Unless you're in the enviable position of being a cash-buyer, the traditional route of a mortgage loan tends to be the most popular way to secure the finances you need to move.

TOP TIP!

Remember that it won't be just the mortgage amount that you'll have to pay on a monthly basis – think about the running costs of owning a home as well (eg household bills, council tax, insurance.) This is particularly important if you are upscaling to a larger home – people forget to factor in the increase in costs that comes with this type of move.

It's prudent to start thinking about collating the information that most mortgage lenders or brokers will want to see or require information about when you speak to them:

- Personal Details eg name, address, date of birth
- Proof of income and expenditure over a specified time period (check what timescale required by the lender)
- Detail of any loans or outstanding debt
- Details of any future plans eg events that may impact your financial situation
- How much you can realistically afford for your mortgage
- How long you want your mortgage for (traditionally mortgages have been over a 25 year period, but increasingly lenders are providing mortgages spanning 30 or 35 years dependent on circumstances)
- Employment history
- What type of mortgage you are looking at *(see later sections of this guide)*

Where to get a mortgage

The three most common ways of applying for a mortgage are:

1. **Direct to your bank or building society** – you will have the choice of their own mortgage product range. Depending on the type of mortgage that you are seeking, this will usually be a narrower choice than through other channels where you have a wider choice of mortgage providers.

2. **Independent Financial Advisor or a Mortgage Broker** – you will have a wider range of products from across the market that you can access and can benefit from additional support in selecting the right product for you.

3. **Online** – increasingly mortgage providers are looking to service customers with an online proposition, although it is recognised that at specific stages of the journey, the majority of people prefer to take advice over the phone or face to face.

Types of mortgages

You will often hear people talking about *Repayment* or *Interest Only* mortgages. Simply put; a repayment mortgage means that each month you 'repay' an amount of interest and capital on the loan amount you have borrowed.

With an Interest Only mortgage you are only paying the interest on the money you have borrowed – you are not repaying any of the capital amount. Whilst these mortgages offer substantially lower monthly payments, they mean you are left with the total lump sum of capital to pay at the end of the mortgage period. It's important to note that with this type of mortgage a repayment vehicle needs to be in place so that there is proof you will be able to pay off the mortgage. This is usually in the form of; the sale of the mortgaged property, sale of 2nd property, pension lump sum or investments etc.

Within these two categories, there are then a range of mortgage types to choose from, the most common are;

- **Fixed rate** – the mortgage rate is 'fixed' for a set period, usually 2, 3 or 5 years. In specific circumstances providers may be willing to extend this fixed period for longer. The interest rate you pay remains the same across the number of years you have fixed the mortgage for. After the fixed period, it reverts to the lenders SVR (standard variable rate).

- **Standard Variable Rate (SVR)** – a type of variable rate which means your payments can go up or down according to changes in interest rates. Unlike a tracker (see below), a Standard Variable Rate does not track above the Bank of England Base Rate at a set percentage. The rate paid on an SVR mortgage will be determined by the mortgage lender.

- **Tracker rate** – this type of variable rate mortgage moves in line with a specified interest rate which is usually the Bank of England base rate. The actual mortgage rate will be a set interest rate above or below the base rate. When base rates go up, mortgage rates will go up by the same amount and it will come down when the base rate comes down.

- **Offset** – are a type of mortgage that links your mortgage to your savings. The funds in the savings account do not receive an interest rate, but these monies are offset against the interest payable on the mortgage – this can be calculated daily or monthly.

What it costs

How much you pay back on a mortgage depends on how much you borrow and over what period. Some products will have an upfront arrangement fee to pay, others do not have any arrangement fees at all. Your advisor or broker will assess the situation and recommend either a fee upfront or a no fee product depending upon your circumstances and priorities.

3 things which influence the amount you pay are:

1. **Initial deposit** – this needs to be at least 5% of the home's value. The bigger the deposit, the more favourable mortgage rates you could get.
2. **Mortgage length** – mortgages typically last 25 years, but longer terms are increasingly available to younger homebuyers. Remember that, with interest added, longer mortgages mean you tend to pay more overall.
3. **Interest rate** – how good an interest rate you get depends largely on how big your deposit is, as well as how good your credit rating is.

It's not just the monthly mortgage payments you need to think about if buying a home, you also need to factor in some additional costs associated with buying and moving;

- Mortgage arrangement and valuation fees
- A deposit
- Stamp Duty (Land and buildings Transaction Tax in Scotland, or Land Transaction Tax in Wales)
- Survey costs
- Solicitor's fee
- Buildings and contents insurance
- Removal costs

Other things you may find useful to know

Loan-to-value – When saving a deposit and looking at mortgage options, the term "loan-to-value" (LTV) crops up.

To put it simply LTV is the percentage of a home's value that is being covered by the mortgage. The lower the LTV% the better the repayment rate you can get.

For example, if you want a house worth £200,000, and you put down a deposit of 10% (£20,000), your mortgage lender will front the other 90% (£180,000).

Stamp duty – If you know anyone that's moved in recent years, then you'll probably have heard them talk about Stamp Duty Land Tax (or Land and buildings transaction tax in Scotland). It's a lump-sum tax that anyone buying a property or land costing more than a set amount has to pay. The rate of tax you'll pay depends on the price of the property itself.

GOOD NEWS!

If you're a first-time buyer, you get a special relief, so that you don't pay as much.

Getting financial help to buy your first home

With with house prices still high, if you're struggling to get a mortgage agreed, don't despair and think the dream is over - there are a couple of options you may want to explore:

- **Guarantor mortgages** – Asking another person (normally a parent, guardian or close relative) to agree to be responsible for paying the mortgage, if you are unable to, could be an option. These arrangements are legally binding and shouldn't be entered into lightly by either party.
- **Government-backed schemes** that aim to give home buyers a helping hand onto the property ladder:
  - **Help to buy scheme 2013** – With a minimum deposit of 5% of the purchase price the government will assist with an interest free loan of up to 20% of the purchase price for the first 5 years.
  - **Forces help to buy** – To enable members of the armed forces to borrow up to 50% of their annual salary to a maximum of £25,000 interest free to assist with a property purchase.
  - **Shared ownership** – A scheme to allow people to buy only part of their property and rent the remainder, with the opportunity to buy more later.
  - **Older peoples shared ownership** – Designed to assist people over the age of 55 buy a part of their property.
  - **Home ownership for people with long-term disabilities** – Like shared ownership mortgages but adapted to cater for specific needs.

Re-mortgage

When you remortgage your property, you're replacing your existing mortgage with a new deal. Remortgaging brings new opportunities to reduce your monthly payment, your mortgage term, both or even borrow more.

It might be prompted by a change in circumstance, planned extension or raising fund from equity in your property.

Before you start your remortgage journey, consider:

1. Will you be paying an early repayment charge? Most mortgages have an early repayment charge, which can be thousands of pounds. So you need to know:
   - Is there a charge?
   - How much is it?
   - What date does it apply until?
2. Compare several deals to make sure you're getting the right product and deal for you. Your mortgage advisor can help with this.
3. Pulling together your proof of income, identification and details of any outgoings together, for your remortgage application. Lenders will want to check you can afford the mortgage, before providing you with an offer.

TOP TIP!

Start to think about remortgaging before your current mortgage deal ends – many mortgage offers are valid for 3 to 6 months from when they are issued. Getting a new deal in place can avoid you paying an expensive standard variable rate.

Did you know...

It's not just a first-home that incurs costs. There's a range of other costs to take into consideration when remortgaging too:

- **Early repayment charges** – early repayment charges are a penalty for leaving the mortgage before it comes to term, often calculated as a percentage of your loan value.
- **Lender's arrangement fee** – this is the administrative costs of organising your mortgage. This could be a flat fee or a percentage. Your lender will be able to advise of arrangement fees that apply to your particular mortgage. Your advisor will be able to advise on arrangement fees if they do apply to a particular mortgage.
- **Higher lender charge** – if the mortgage you are taking out is a sizable percentage of the property value (typically >90%), lenders may add an additional charge to insure themselves in case you can't meet the monthly payments.
- **Valuation fees** – this covers the cost of hiring a surveyor to assess the property's condition and value.
- **Legal fees** – these cover the cost of hiring a solicitor for the process of preparing the deeds and carrying out the conveyancing process.

Buy-to-let

A Buy-to-let property can be a worthwhile investment – whether you're just starting out as a landlord or are expanding your portfolio, you need to ensure you get the right mortgage.

What's the difference between a buy-to-let mortgage and a residential mortgage?

Both involve you borrowing to fund a property purchase. However, there are some important differences:

- Rates on buy-to-let mortgages are usually higher than on residential mortgages
- You will need to put down a larger deposit
- Buy-to-let mortgages are usually interest only, rather than repayment, so you don't pay back any of the capital you owe until the end of the mortgage term.

How much deposit do I need for a buy-to-let mortgage?

You'll usually have to come up with at least 25% of the property value for a buy-to-let mortgage.

TOP TIP!

Like residential mortgages, the bigger the deposit you can afford to put down, the better the buy-to-let mortgage deals you will have access to - with the best buy-to-let rates typically offered to those with a deposit of 40% or more.

What buy-to-let mortgage deals are available?

There are lots of different buy-to-let mortgage deals available.

- **Tracker deals** – which track the Bank of England base rate including a set percentage. The downside of a tracker deal is that the rate is variable and will go up and down at the same time as the base rate.
- **Variable mortgage deals** – such as discounted buy-to-let mortgages (where the lender offers a discount off its standard variable rate), or capped mortgage rates (where again payment can fluctuate but will never exceed a certain limit or cap)
- **Fixed rate** – If you're worried about interest rates rising, this may be a good option to look at.

Did you know...

- The amount you can borrow for a buy-to-let mortgage is linked to how much rent you are expecting to make on the property on which the mortgage is secured.
- As a general rule, the bigger the deposit you can afford to put down, the better the buy-to-let mortgage deals you will have access to, with the best buy-to-let rates typically offered to those with a deposit of 40% or more. Whilst a typical deposit is 25%, some lenders only require 20% deposits for first time landlords and some only require a 15% deposit for experienced landlords.
- Buy-to-let mortgages are usually interest only, rather than repayment, so you don't pay back any of the capital you owe until the end of the mortgage term. The advantage of this is that your monthly payments will be lower. The downside is that if property prices fall while you own the property, there is a risk that when you come to sell it, you might not end up with enough to pay off the mortgage.

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